

**COUNTY OF ORANGE**  
**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 1999**  
**(Dollar Amounts in Thousands)**

**1. BANKRUPTCY RECOVERY**

Background

On December 6, 1994, the County of Orange (the "County") filed for protection under Chapter 9 of the United States Bankruptcy Code as a result of losses arising out of the Orange County Investment Pool (the "Pool"). The liquidation of the Pool's portfolio resulted in the realization of an investment loss of approximately \$1,600,000. This loss was recorded on the County's books and records for Fiscal Year (FY) 1994-1995 with approximately \$600,000 allocable (on a pro rata basis) to the County's accounts, and substantially all of the remainder allocable to accounts of non-County Pool participants, such as cities, school districts and special districts.

In response to the bankruptcy, the County prepared a comprehensive recovery plan, which incorporated budget cuts, administrative reorganization, a settlement agreement with Pool participants, and various methods to raise funds. The County obtained State legislation consisting of Chapters 745, 746, 747 and 748 of the 1995 Statutes (the "Recovery Statutes") to provide for certain monies received from the State that would have otherwise been allocated to other County funds and other governmental agencies, to be deposited to the County's general fund.

The Recovery Statutes were subsequently challenged by a local taxpayer on December 18, 1996, when the County was named as one of the defendants in the "White Complaint." The White Complaint seeks a judicial declaration that, among other things, the County's bankruptcy Recovery Statutes are unconstitutional and violate State law. The White Complaint also seeks to enjoin further implementation of the Recovery Statutes and order the return of all monies transferred in accordance with the Recovery Statutes, plus interest. On August 8, 1997, the County's demurrer to the White Complaint was sustained without leave to amend. By order dated October 22, 1997, the court dismissed the action. White has appealed the trial court's decision and briefs have been filed in the Court of Appeal. No hearing date has been set by the Court of Appeal for this matter .

The recovery plan, including the Modified Second Amended Plan of Adjustment (the "Plan"), provides that the legislatively redirected revenues, or other County monies in an equivalent amount, together with certain other County revenues will be used to satisfy the principal and interest payments on the Plan of Adjustment Certificates of Participation (the "Plan COPs") and to amortize deficiencies in Class B-11, B-12 and B-13 County-Administered Account claims, as defined in the Plan. County-Administered account claims consist of investment losses in County-Administered accounts such as Unapportioned Property Taxes, but do not include investment losses for funds invested by outside entities investing with the County Treasurer. The Plan COPs in the amount of \$760,800, and Refunding Recovery Bonds (the "Bonds") in the amount of \$278,790, represent obligations of the County, payable from the general fund. Including principal payments and defeasances, balances of the Plan COPS and the Bonds, as of June 30, 1999, are \$724,350 and \$247,455 respectively (See Note 6). The enacted Recovery Statutes provide the Plan COPs holders with statutory liens on the County's motor vehicle license fees and certain sales tax revenues, and further provide that the County may elect to have the amount of these fees and revenues necessary to pay each installment of principal and interest on this borrowing intercepted by the State Controller and paid directly to the trustee of the COPs. The Bonds are secured by a pledge and intercept of motor vehicle license fees, pursuant to legislation adopted prior to the Recovery Statutes. Recent State legislation has reduced the amount of motor vehicle license fees paid by owners of automobiles in the State. The State has made up the difference in motor vehicle license fees collected under reduced rates and that which would have been collected under the old fee formula with monies from the State general fund.

The Plan was confirmed by the United States Bankruptcy Court for the Central District of California in its Order Confirming Modified Second Amended Plan of Adjustment entered on May 16, 1996. On June 12, 1996, the Plan became effective and the County emerged from bankruptcy. The County-elected fee and revenue interceptions began in July 1996.

**COUNTY OF ORANGE**  
**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (Cont'd)**  
**FOR THE YEAR ENDED JUNE 30, 1999**  
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**1. BANKRUPTCY RECOVERY (Cont'd)**

Since FY 1996-97, redirected and intercepted revenues have been sufficient to pay debt service on the Plan COPs and to pay the annual amount of \$800 plus interest due on Option B Pool Participant warrants, as well as providing a total of \$24,137 of Available Cash (as defined in the Plan) to partially reimburse the County-Administered Accounts (as defined in the Plan) for losses allocated pursuant to the Comprehensive Settlement Agreement. In accordance with the provisions for allocation of Available Cash in the Plan, along with \$8,718 of other reimbursements, to date Class B-11 school participants have been repaid their total loss amount of \$13,099, Class B-12 non-school participant claims have been repaid \$8,915, and Class B-13 County Funds have been repaid \$10,841.

The County's emergence from bankruptcy and proceeds of the County's Plan COPs, together with other provisions in the Plan and the proceeds of the County's June 12, 1996 approximately \$122,000 Refunding Pension Obligations Bonds (Series 1996A), were used to cure the County's defaults under various terms of its debt obligations and to pay debt holders, vendors, employees, certain County-Administered Accounts, and other administrative undisputed claims in total, as well as replenish debt reserves for certain outstanding certificates of participation, fund a litigation reserve, and fund a reserve to pay disputed claims if determined adversely.

Pursuit of Pool-Related Litigation

Pursuant to the Plan and court order confirming the Plan, Tom Hayes has been appointed as the Litigation Representative to enforce, prosecute and collect upon Pool Related Claims as defined in the Plan. Net Litigation Proceeds will be distributed as provided for in the Plan. In June 1996, the Litigation Fund was established, and \$50,000 of the proceeds from the Plan COPs was deposited in the Litigation Fund in order to fund the litigation effort. This fund is controlled by the Litigation Representative and not the County.

To date there has been extensive investigation and discovery of the events and transactions prior to the bankruptcy that could give rise to claims by the County, primarily focused on brokers who sold securities to the County, brokers who lent the County monies pursuant to reverse repurchase agreements (including those who unlawfully liquidated securities purportedly held as collateral), accountants, attorneys and rating agencies who advised the County in connection with several of its borrowings. As a result of the extraordinary investment losses suffered by the County and the Pool Participants, the claims asserted by the Representative were in excess of \$2,000,000. On June 15, 1999, the Representative announced in a press release that the last settlement agreement was reached with Standard & Poor's for \$140 bringing the balance as of June 15, 1999 in the Orange County Litigation Fund to \$860,723. The fund includes accumulated interest of \$25,766, conditional settlements of \$786,771, and other pool related litigation recoveries of \$48,186. Conditional settlements have been reached with the following parties: Le Boeuf, Lamb, Greene & MacRae LLP, \$45,000; KPMG Peat Marwick LLP, \$75,000; Merrill Lynch, \$420,015; CS First Boston, \$52,500; Morgan Stanley/Dean Witter, \$69,623; Nomura Securities, \$47,877; Bear Sterns \$6,950; Brown & Wood \$23,046; SBC Capital, Inc., \$6,500; Paribas Corporation, \$1,420; Fuji Securities, Inc., \$7,900; Rauscher Pierce Refsnes, Inc., \$10,000; Standard & Poor's, \$140; Other Broker/Dealers \$20,800. These settlements are conditional upon court approval and the entry of certain orders limiting the ability of third parties to assert claims against settled parties.

On July 26, 1999, the attorneys for the Litigation Representative, Hennigan, Mercer & Bennett, submitted a final bill for professional services claiming a fee enhancement of \$48,719 beyond the \$26,335 billed based on hourly rates and hours served in representing the County and the Litigation Representative. The Representative would not authorize the payment of the bill and Hennigan, Mercer, & Bennett filed a fee petition in the United States District Court. On August 30, 1999, the County filed opposition to the motion of awarding the fee enhancement. The motion was heard on October 7, 1999. On November 10, 1999, Judge Gary Taylor awarded \$3,000 to the law firm. All parties have waived their right to appeal or otherwise contest the ruling. The County's share of the escrowed proceeds is estimated to be approximately \$290,000.

**COUNTY OF ORANGE**  
**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (Cont'd)**  
**FOR THE YEAR ENDED JUNE 30, 1999**  
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**1. BANKRUPTCY RECOVERY (Cont'd)**

FY 1999-00 General Fund Budget

The FY 1999-00 General Fund Budget was adopted by the Board of Supervisors as a balanced budget on June 29, 1999, and includes all bankruptcy-related debt service payments and related redirected and intercepted revenues. The FY 1999-00 General Fund Budget of \$1,840,000 shows a modest increase of 4% over the FY 1998-99 Modified Budget. This budget funds all FY 1999-00 Board approved Strategic Priorities; reserves \$35,000 for future year planned strategic priority projects; and increases the contingency fund to \$20,000.

In addition, the FY 1999-00 General Fund Budget adds \$5,000 to the debt defeasance reserve established by The Board of Supervisors in FY 1996-97, bringing the total Reserve for Debt Repayment to \$27,095. This reserve is intended to be used to reduce County debt levels by defeasing high-coupon County general fund debt obligations, which may have particularly onerous administrative and/or costly legal restrictions.

Management of the County anticipates that, under current revenue funding levels, the County can continue to successfully fund the outstanding debt obligations including debt issued pursuant to the Plan, operate County programs at current acceptable levels without program cuts, and provide increased funding for the debt defeasance reserve.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The following is a summary of the more significant accounting policies of the County of Orange:

**A. Reporting Entity**

The County is a legal subdivision of the State of California charged with general governmental powers. The County's powers are exercised through an elected five-member Board of Supervisors which, as the governing body, is responsible for the legislative and executive control of the County. The County provides a full range of general government services, including police protection, detention and correction, public assistance, health and sanitation, recreation, library, flood control, waste management, airport management, and general financial and administrative support.

As required by generally accepted accounting principles, these financial statements present the County (the primary government) and its component units, entities for which the County is considered to be financially accountable. Blended component units, although legally separate entities are, in substance, part of the County's operations, and the County Board of Supervisors is their governing body. Therefore data from these units are combined with data of the primary government. The County has no component units that require discrete presentation. Using the criteria of Governmental Accounting Standards Board (GASB) Statement No. 14, management determined the following component units should be blended:

Orange County Flood Control District. The governing body of the District is the County's governing body. Among its duties, it approves the District's budget, determines the District's tax rates, approves contracts, and appoints the management. The District is reported in governmental fund types.

Orange County Development Agency. The governing body of the Agency is the County's governing body. Among its duties, it approves the Agency's budget and appoints the management. The Agency is reported in governmental fund types. Separate financial statements are also issued for this component unit. Copies of the financial statements can be obtained from Housing & Community Development Accounting.

Orange County Housing Authority. The governing body of the Authority is the County's governing body. Among its duties, it approves the Authority's budget, determines the rates and charges for the use of facilities and appoints the management. The Authority is reported as an expendable trust fund.

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**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (Cont'd)**  
**FOR THE YEAR ENDED JUNE 30, 1999**  
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**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)**

**A. Reporting Entity (Cont'd)**

Orange County Civic Center Authority. The Authority is a joint powers authority of the County and the City of Santa Ana. It has a five member governing body appointed by the County and the City of Santa Ana. The County has control over operations and responsibility for fiscal management of the Authority. The Authority is fiscally dependent upon the County and provides almost all services entirely to the County. Separate financial statements are also issued for this component unit. Copies of the financial statements can be obtained from Public Facilities & Resources Department (PFRD) Accounting. The Authority is reported in governmental fund types.

Orange County Financing Authority. The Authority is a joint powers authority of the Orange County Development Agency and the Orange County Housing Authority, formed for the purpose of assisting the Orange County Development Agency in financing and refinancing its redevelopment projects and activities. The governing body of the Authority is the County's governing body. The Authority is reported in governmental fund types.

Orange County Special Financing Authority. The Authority is a joint powers authority of the County and the Orange County Development Agency, formed to assist in the refinancing of the County's Teeter Plan program, and in the financing of public capital improvements and other projects. The governing body of the Authority is the County's governing body. Separate financial statements are also issued for this component unit. Copies of the financial statements can be obtained from the County Executive Office (CEO)/Public Finance Accounting. The Authority is reported in governmental fund types.

Orange County Public Financing Authority. The Authority is a joint powers authority of the County and the Orange County Development Agency, formed to provide financial assistance to the County by financing the acquisition, construction, and improvement of public facilities in the County. The governing body of the Authority is the County's governing body. The activities of the Authority occur within the proprietary fund types.

Orange County Public Facilities Corporation. The corporation has its own five member governing body, which is appointed by the County's governing body, and provides services entirely to the primary government (the County) through the purchase or construction of land and/or facilities which are then leased back to the County. The Corporation is reported in governmental fund types.

County Service Areas, Special Assessment Districts, and Community Facilities Districts. The governing body of County Service Areas, Special Assessment Districts, and Community Facilities Districts ("special districts") is the County's governing body. Among its duties, it approves the special districts' budgets, approves parcel fees, and appoints the management. The special districts are reported in governmental fund types.

**B. Fund Accounting**

The County uses funds and account groups to report on its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fund is a separate accounting entity with a self-balancing set of accounts. An account group, on the other hand, is a financial reporting device designed to provide accountability for certain assets and liabilities that are not recorded in the funds because they do not directly affect net expendable available financial resources.

Funds are classified into three categories: governmental, proprietary, and fiduciary "fund types".

**COUNTY OF ORANGE**  
**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (Cont'd)**  
**FOR THE YEAR ENDED JUNE 30, 1999**  
**(Dollar Amounts in Thousands)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)**

**B. Fund Accounting (Cont'd)**

**Governmental Fund Types:**

General Fund - The general fund is used to account for resources traditionally associated with government and all other resources which are not required legally or by sound financial management to be accounted for in another fund.

Special Revenue Funds - Special revenue funds are used to account for the proceeds of specific revenue sources (other than expendable trusts or for major capital projects) that are legally restricted to expenditure for specified purposes.

Debt Service Funds - Debt service funds are used to account for the accumulation of resources for, and the payment of, general long-term debt principal and interest, and related costs.

Capital Projects Funds - Capital projects funds are used to account for financial resources to be used for the acquisition and construction of major capital facilities (other than those financed by proprietary fund types and trust funds).

**Proprietary Fund Types:**

Enterprise Funds - Enterprise funds are used to account for operations that are financed and operated in a manner similar to private business enterprises where the intent is that costs of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges, or where periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

Internal Service Funds - Internal service funds are used to account for the financing of goods or services provided by one County department or agency to other County departments or agencies, or to other governmental entities, on a cost-reimbursement basis.

**Fiduciary Fund Types:**

Trust and Agency Funds - Trust and agency funds are used to account for assets held on behalf of outside parties, including other governments, or on behalf of other funds within the County. When these assets are held under the terms of a formal trust agreement, a pension trust, investment trust, educational investment trust, nonexpendable trust or expendable trust fund is used. The terms "nonexpendable" and "expendable" refer to whether or not the County is under an obligation to maintain the trust principal. Agency funds are generally used to account for assets that the County holds on behalf of others as their agent.

**Account Groups:**

General Fixed Assets - The general fixed assets account group is used to account for all fixed assets of the County, other than those accounted for in proprietary funds or similar trust funds.

General Long-Term Debt - The general long-term debt account group is used to account for the unmatured principal of bonds and notes, and other forms of noncurrent or long-term general obligation debt that are not a specific liability of any proprietary fund or similar trust funds.

The County maintains 635 individual funds. Certain similar special revenue, debt service, capital projects, enterprise, and trust and agency funds have been grouped on a functional basis in conformity with generally accepted accounting principles (GAAP) to enhance communication and understanding of the financial statements.

**COUNTY OF ORANGE**  
**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (Cont'd)**  
**FOR THE YEAR ENDED JUNE 30, 1999**  
**(Dollar Amounts in Thousands)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)**

**C. Basis of Accounting**

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types and expendable trust funds are accounted for using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

All proprietary fund types, nonexpendable trust, pension trust, and investment trust funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the balance sheet. Proprietary fund equity (i.e., net total assets) is segregated into contributed capital and retained earnings components. Proprietary fund type and similar trust fund operating statements present increases (i.e., revenues) and decreases (i.e., expenses) in net total assets.

The modified accrual basis of accounting is followed for the general, special revenue, debt service, capital projects, expendable trust and agency funds. Revenues and other governmental fund type financial resources increments (i.e., bond issuance proceeds) are recognized in the accounting period in which they become susceptible to accrual - that is, when they become both measurable and available to finance expenditures of the fiscal period. Revenues which are accrued include real and personal property taxes, sales taxes, motor vehicle in-lieu taxes, fines, forfeitures and penalties, interest, federal and state grants and subventions, charges for current services, and the portion of long-term sales contracts and leases receivable that are measurable and available and where collectibility is assured. Revenues which are not considered susceptible to accrual include penalties on delinquent property taxes and minor licenses and permits.

Most expenditures are recorded when the related fund liabilities are incurred. However, inventory type items are considered expenditures at the time of use and principal and interest expenditures on bonded debt are recorded in the year in which they become due for payment. Costs of claims, judgments, compensated employee absences and employer pension contributions are recorded as expenditures during the fiscal year when they would normally be liquidated with expendable available financial resources. The related long-term obligation is recorded in the general long-term debt account group at year end. Commitments such as purchase orders and contracts for materials and services are recorded as encumbrances. Reservations of fund balance are created for encumbrances outstanding.

The accrual basis of accounting is followed for enterprise, internal service, nonexpendable trust, pension trust, and investment trust funds. Generally, revenues are recognized when earned and expenses are recognized when incurred. Grants are recorded as nonoperating revenues when earned, except for those restricted for capital acquisitions, which are recorded as contributions to equity. Under GASB Statement No. 20, the County has elected not to apply Financial Accounting Standards Board provisions issued after November 30, 1989.

**D. Budget Adoption and Revision**

No later than October 2nd of each year, after conducting public hearings concerning the proposed budget, the County Board of Supervisors adopts a budget in accordance with Government Code Sections 29000-29144 and 30200. The County publishes the results of this initial budgeting process in a separate report, the "Final Budget," which specifies all accounts established within each fund-agency unit (a collection of account numbers necessary to fund a certain division or set of goal-related activities).

**COUNTY OF ORANGE**  
**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (Cont'd)**  
**FOR THE YEAR ENDED JUNE 30, 1999**  
**(Dollar Amounts in Thousands)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)**

**D. Budget Adoption and Revision (Cont'd)**

The governmental funds are comprised of multiple fund-agency units, with the exception of the "Public Library," "Redevelopment Agency," "Harbors, Beaches, and Parks District," "Taxable Note Repayment," "Restricted Refinancing Proceeds," "Recovery Certificates of Participation," "Schedule I County-Administered Accounts," and "Deferred Compensation Reimbursement" special revenue funds; the "Public Facilities Corporation Bonds, Master Lease," "Pension Obligation Bonds," "Refunding Recovery Bonds," "Orange County Special Financing Authority," and "Recovery Certificates of Participation" debt service funds; and the "Public Library," "Flood Control District" capital project funds, which are comprised of individual fund-agency units.

Each year the initial adopted budget is increased for unanticipated revenues and changes in Fund Balance, offset by an equal amount of increased appropriations for new reimbursement contracts not in the original budget. Department heads are authorized to approve appropriation transfers within a fund-agency unit. However, appropriation transfers between fund-agency units require approval of the Board of Supervisors. Accordingly, the lowest level of budgetary control exercised by the County's governing body is the fund-agency unit level which represents a Department or an Agency. Final appropriations reflected in the "Revised Budget" columns of the Combined Statement of Revenues, Expenditures/Encumbrances and Changes in Fund Balances - Budget and Actual on Budgetary Basis - All Governmental Fund Types include supplemental appropriations of \$139,441.

Annual budgets were adopted for the individual funds comprising the following governmental fund type fund categories (listed by fund type/fund category):

General

Special Revenue

- Parking Facilities and Civic Center Authority \*
- Roads
- Public Library
- Redevelopment Agency
- Flood Control District
- Harbors, Beaches and Parks District
- Service Areas, Lighting and Maintenance Districts
- Other Environmental Management
- Other Public Protection
- Community Services
- Taxable Note Repayment
- Designated Special Revenue Funds
- Restricted Refinancing Proceeds
- Recovery Certificates of Participation
- Schedule I County-Administered Accounts
- Plan of Adjustment Available Cash
- Deferred Compensation Reimbursement

Debt Service

- Redevelopment Agency Bonds
- General Obligation, Other Revenue Bonds \*
- Pension Obligation Bonds
- Refunding Recovery Bonds
- Orange County Special Financing Authority

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**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (Cont'd)**  
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**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)**

**D. Budget Adoption and Revision (Cont'd)**

Capital Projects

Criminal Justice Facilities

Public Library

Flood Control District

Redevelopment Agency

Special Assessment Districts and Service Areas

Excluded from the Combined Statement of Revenues, Expenditures/Encumbrances and Changes in Fund Balances - Budget and Actual on a Budgetary Basis are the following governmental fund type fund categories for which annual budgets were neither legally required nor adopted (listed by fund type/fund category):

Special Revenue

Parking Facilities and Civic Center Authority

Debt Service

Public Facilities Corporation Bonds, Master Lease

Recovery Certificates of Participation

General Obligation, Other Revenue Bonds

\* For reporting purposes, these fund categories include both budgeted and nonbudgeted funds. The following defines the funds included in those fund categories:

<u>FUND :</u>	<u>BUDGETED</u>	<u>NONBUDGETED</u>
<u>Special Revenue:</u>		
Parking Facilities and Civic Center Authority	Parking Facilities	Orange County Civic Center Parking/ General Operating Orange County Civic Center Parking/ Maintenance
<u>Debt Service:</u>		
General Obligation, Other Revenue Bonds	Flood Control District Bonds 1957 I & S Sanitation District 12 1963 Bond Redemption	Orange County Civic Center State Building Lease

**E. Encumbrances and Appropriations**

Encumbrances, which are commitments related to executory contracts for goods or services, are recorded for budgetary control purposes in the general, special revenue and capital projects funds. Encumbrance accounting is utilized to assure effective budgetary control and accountability. Encumbrances outstanding at year-end represent the estimated amount of the expenditures which will ultimately result if the unperformed contracts in process at year-end are completed. Encumbrances at year-end do not constitute GAAP basis expenditures or liabilities. Only unencumbered, unexpended appropriations lapse at year-end and encumbrances outstanding at that time are reported as reservations of fund balance for subsequent year expenditures. For budgetary purposes, expenditures plus encumbrances cannot legally exceed budgeted appropriations.

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**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (Cont'd)**  
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**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)**

**F. Cash and Investments**

The County maintains a cash and investments pool (the County Pool) for the purpose of benefiting from economies of scale through pooled investment activities. In addition, the County maintains a separate cash and investments pool for the County public school districts (the Educational Pool) (See Note 3).

The County has stated required investments at fair value in the accompanying financial statements. Management contracts with an outside service to provide pricing for the fair value of investments in the portfolio. The investments are marked to market and the net asset value is calculated for both the County Pool and the Educational Pool each business day. Securities listed or traded on a national securities exchange are valued at the last quoted sales price. Short-term money market instruments are valued using an average of closing prices and rate data commonly known as matrix pricing.

Proceeds from County issued bonds are held by trustees and are invested in mutual funds, investment agreements, and U.S. Government securities. Short-term investments are reported at cost, while long-term investments, such as U.S. Government securities, are shown at fair value. The trustee uses an independent service to value those securities which are shown at fair value.

The County has not provided or obtained any legally binding guarantees during the year to support the value of participants' shares in the pool.

The pools value participants' shares on an amortized cost basis. Specifically, the pool distributes income to participants based on their relative participation during the period. Income is calculated based on (1) realized investments gains and losses calculated on an amortized cost basis, (2) interest income based on stated rates (both paid and accrued), (3) amortization of discounts and premiums on a straight-line basis, and (4) investment and administrative expenses. This method differs from the fair value method used to value investments in these financial statements because the amortized cost method is not designed to distribute to participants all unrealized gains and losses in the fair values of the pools' investments. At June 30, 1999, there is no material difference between pool participants' shares valued on an amortized cost basis compared to fair value.

**G. Inventory of Materials and Supplies**

Inventories consist of expendable materials and supplies held for consumption. Inventories are valued at cost determined on a moving weighted average basis. Applicable fund balances are reserved for amounts equal to the inventories on hand at the end of the fiscal year as these amounts are not available for appropriation and expenditure. The costs of inventory items are recorded as expenditures/expenses when issued to user departments/agencies.

**H. Land and Improvements Held for Resale**

These assets, held by the County's Development Agency, are valued at the lower of cost or estimated net realizable value.

**I. General Fixed Assets**

The general fixed assets account group records, at cost, the fixed assets which are not accounted for in an enterprise, internal service or similar trust funds. Such assets include land, buildings, building improvements, furniture, fixtures and equipment. Gifts and contributions of fixed assets are recorded at fair market value when received. No depreciation is provided on general fixed assets. Expenditures for streets, roads, bridges, curbs, gutters, sidewalks, flood channels, lighting systems, and similar assets are not capitalized, because they are immovable and of value only to the County.

**COUNTY OF ORANGE**  
**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (Cont'd)**  
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**(Dollar Amounts in Thousands)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)**

**J. Property, Plant and Equipment of Enterprise and Internal Service Funds**

Fixed assets purchased by the enterprise and internal service funds are capitalized at cost, while contributed assets are recorded at their fair market value when received. Depreciation is provided on a straight-line basis over the estimated useful lives of the related assets. Depreciation of contributed assets is netted against contributed capital. Estimated useful lives of property, plant and equipment are as follows:

Structures and Improvements	10 to 50 years
Equipment	2 to 20 years

**K. Self-Insurance**

The County is self-insured for general and automobile liability and workers' compensation claims, and for claims arising under the group health indemnified plans, group salary continuance plan, group dental plan, and unemployment benefits program. Liabilities are accrued based upon estimated future amounts to be paid on known claims and incurred but not reported claims, including allocated loss adjustment expenses. (See Note 20).

**L. Property Taxes**

The provisions of the California State Revenue and Taxation Code govern assessment, collection, and apportionment of real and personal property taxes. Real and personal property taxes are determined by applying approved property tax rates to the assessed value of properties as established by the County Assessor, in the case of locally assessed property, and as established by the State Board of Equalization, in the case of State-assessed public utility unitary and operating non-unitary property. Property taxes are levied annually, with the exception of the supplemental property taxes, which are levied when supplemental assessment events, such as sales of property or new construction, take place.

The County collects property taxes on behalf of all property tax-receiving agencies in Orange County. Property tax-receiving agencies include the school districts, cities, community redevelopment agencies, independently governed special districts (not governed by the County Board of Supervisors), special districts governed by the County Board of Supervisors, and the County general fund.

Property taxes receivable are recorded as of the date levied in property tax unapportioned funds, which are classified as agency funds. When collected, the property taxes are deposited into the County Treasury into the property tax unapportioned funds, where they are held in the unapportioned taxes liability accounts pending periodic apportionment to the taxing agencies. The property tax unapportioned funds are included in the agency funds category of the County's general purpose financial statements because the unapportioned taxes are collected and held on behalf of other governmental agencies.

Property tax collections are apportioned to the tax-receiving agencies periodically from the tax unapportioned funds based on various factors including statutory requirements; materiality of collections received; tax delinquency dates; the type of property tax roll unapportioned fund (secured, unsecured, supplemental, delinquent secured, delinquent unsecured, delinquent supplemental, homeowners' property tax subvention, or public utility); and cash flow needs of the tax-receiving agencies.

Property tax revenues are recognized in the fiscal year for which they are levied, provided they are due and collected within the fiscal year and are distributed within 60 days after the fiscal year-end. Property tax revenues are also recognized for unsecured and supplemental property taxes that are due at year-end, and are collected within 60 days after the fiscal year-end, but will not be apportioned until the next fiscal year due to the timing of the tax apportionment schedule.

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**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)**

**L. Property Taxes (Cont'd)**

Unsecured and supplemental property tax levies that are due within the fiscal year but are unpaid at fiscal year-end are recorded as deferred revenue. The County uses the direct write-off method to recognize uncollectible taxes receivable.

The County also records collections of disputed property taxes, such as those paid for properties for which the values have been appealed to the local Assessment Appeals Boards, within the unapportioned tax liability accounts in the property tax unapportioned funds. Upon final disposition of the appeals and disputes, the amounts are either refunded to taxpayers or distributed to the tax-receiving agencies. As of June 30, 1999, tax refunds and assessed value tax roll corrections resulting from property tax appeals and other disputes represented approximately 1.32 percent of the combined beginning secured and unsecured property tax roll charge.

The following are significant dates on the property tax calendar:

	California Revenue & Taxation Code Section
Supplemental assessments are effective on the 1st day of the month following the new construction or ownership change.	75.41
Property tax lien date is January 1.	2192
Unsecured taxes on the roll as of July 31 are delinquent August 31.	2922
Assessor delivers roll to Auditor-Controller July 1.	616, 617
Tax roll is delivered to the Tax Collector on or before the levy date (the 4th Monday in September).	2601
Secured tax payment due dates are: 1st Installment - November 1, and 2nd Installment - February 1.	2605 2606
Secured tax delinquent dates (last day to pay without a penalty) are: 1st Installment - December 10, and 2nd Installment - April 10.	2617 2618
Declaration of default for unpaid taxes occurs July 1.	3436
Power to sell is effective five years after tax default.	3691

**M. Compensated Employee Absences**

Compensated absences (vacation, compensatory time off, and sick leave) are accrued as an expense and liability in the proprietary fund when incurred. In the governmental fund types, only those amounts that are expected to be liquidated with expendable available financial resources are accrued as current year expenditures. Compensated absences that exceed this amount are reported in the general long-term debt account group and are not recorded as expenditures.

The estimate recorded at June 30, 1999, in the General Long Term Debt Account Group is \$59,666 compared with \$49,962 at June 30, 1998. The increase is attributable to peace officers now being entitled to receive compensation for unused sick leave as part of their annual leave package. Most of this amount will be ultimately paid from the general fund.

**COUNTY OF ORANGE**  
**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (Cont'd)**  
**FOR THE YEAR ENDED JUNE 30, 1999**  
**(Dollar Amounts in Thousands)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)**

N. Total Columns on General Purpose Financial Statements

The "Total" columns on the accompanying general purpose financial statements are captioned "Memorandum Only" to indicate that they are presented only to facilitate financial analysis. They do not represent and are not comparable to consolidated financial information. Data in these columns do not purport to present financial position, results of operations, or cash flows of the County in conformity with GAAP.

O. Statement of Cash Flows

Statements of Cash Flows are presented for proprietary fund types and the nonexpendable trust fund. Cash and equivalents include all unrestricted and restricted highly liquid investments with original purchase maturities of three months or less. Pooled cash and investments in the County's Treasury represent monies in a cash management pool and such accounts are similar in nature to demand deposits.

P. Effect of New Pronouncements

In December 1998, GASB issued Statement No. 33, *"Accounting and Financial Reporting for Nonexchange Transactions,"* effective for periods beginning after June 15, 2000. The Statement establishes financial reporting standards to guide state and local governments' decisions about when (in which fiscal year) to report the results of nonexchange transactions involving cash and other financial and capital resources. The County is analyzing its current accounting practices and believes the implementation will not have a material impact on the general purpose financial statements.

In June 1999, GASB issued Statement No. 34, *"Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments,"* effective for periods beginning after June 15, 2001. This Statement establishes new financial reporting requirements for state and local governments throughout the United States. When implemented, it will create new information and will restructure much of the information that governments have presented in the past. GASB Statement No. 34 represents the most important single change in the history of accounting and financial reporting for state and local governments. One of the most significant changes is that all capital assets, including infrastructure, will be reported within the basic financial statements, along with depreciation expense and accumulated depreciation. Currently, infrastructure related to governmental funds is not reported in the financial statements. GASB Statement No. 34 provides an alternative to depreciation for infrastructure, termed the "modified approach." The modified approach requires the use of a qualified asset management system and additional schedules to be reported in another new element of the financial statements, the "Management's Discussion and Analysis (MD&A)" section. The costs to implement GASB Statement No. 34 are unknown at this time. The County is in the initial planning stages and anticipates various complex analyses will be required before the full impact of the statement can be estimated.

In March 1999, GASB issued Technical Bulletin (TB) No. 99-1, *"Disclosures about Year 2000 Issues – An Amendment of Technical Bulletin 98-1."* TB 98-1 established the types of disclosures that should be presented in the financial statements about compliance with Year 2000 (Y2K) issues for a government's internal computer systems and other electronic equipment. TB 98-1 requires a governmental entity to make three basic disclosures: (a) significant amounts of resources committed to Y2K compliance; (b) a general description of how it is affected by the Y2K issue; and (c) information about its stage of readiness. TB 98-1, Paragraph 4, refers to notes to the financial statements as the appropriate place to disclose Y2K issues. TB 99-1 states that the necessary Y2K disclosures can be made in the notes to the financial statements or in required supplementary information following the notes. The County has elected to report Y2K disclosures as required supplementary information. The provisions of TB 99-1 are effective immediately. The provisions terminate for financial statements for periods ending after December 31, 1999, unless mission-critical systems and other equipment are not operating because of the Y2K issue as of the balance sheet date. Beginning with FY 1998-99, the County implemented the provisions of TB 99-1.

**COUNTY OF ORANGE**  
**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (Cont'd)**  
**FOR THE YEAR ENDED JUNE 30, 1999**  
**(Dollar Amounts in Thousands)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)**

**Q. Use of Estimates**

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates. Where significant estimates have been made in preparing these financial statements, they are described in the applicable footnotes.

**3. DEPOSITS AND INVESTMENTS**

Deposits and investments (including repurchase agreements) totaled \$3,051,265 as of June 30, 1999. Each fund's portion of this total is reflected in the balance sheet accounts entitled "Pooled Cash/Investments, Cash Equivalents/Specific Investments, Imprest Cash Funds, Restricted Cash and Investments with Trustee, and Investments."

The Treasurer maintains the County Pool and the Educational Pool for the County and other non-County entities for the purpose of benefiting from economies of scale through pooled investment activities. The primary investment objectives, in priority order, of the Treasurer's investment activities are safety of principal, meet the liquidity needs of the participants, attain a money market rate of return, and attempt to stabilize at a \$1 net asset value. These external investment pools contain deposits, repurchase agreements, and other investments with an average maturity of less than 90 days. Interest is allocated to individual funds monthly based on the average daily balances on deposit with the Treasurer. All interest income has been recognized in the fund reporting the investments. Income assigned to another fund due to a management decision is recognized in the fund that reports the investments and reported as an operating transfer to the recipient fund.

**A. Deposits**

Monies must be deposited in state or national banks, or state or federal savings and loan associations located within the State. The County is authorized to use demand accounts and certificates of deposit. Additionally, monies deposited at national banks are used for compensating balances.

Obligations pledged to secure deposits must be delivered to an institution other than the institution in which the deposit is made; however, they may be held by the trust department of the same institution. Written custodial agreements are required that provide, among other things, that the collateral securities are held separate from the assets of the custodial institution. The pledge to secure deposits is administered by the California Superintendent of Banks.

Collateral is required for demand deposits at 110 percent of all deposits not covered by federal deposit insurance if obligations of the United States and its agencies, or obligations of the State or its municipalities, school districts, and district corporations are pledged. Collateral of 150 percent is required if a deposit is secured by first mortgages or first trust deeds upon improved residential real property located in California. All such collateral is considered to be held by the pledging financial institutions' trust departments or agents in the name of the County.

At year-end, the carrying amount of the County's demand deposits overdraft was \$51,189. The related bank balance for the County's demand deposits was \$40,294, of which \$400 was insured by FDIC insurance with the remainder collateralized as described above. The County had \$227,971 in maturing securities the following business day to cover outstanding checks. The County also had imprest cash funds in the amount of \$1,867 which was insured by FDIC insurance or collateralized as described above.

In addition, the County held a portion of its Restricted Cash and Investments with Trustee in the form of Bank Investment Contracts (BIC's). These BIC's are considered deposits with financial institutions and amount to \$57,950, of which \$300 was insured by FDIC insurance with the remainder uncollateralized.

The Treasurer has established separate bank and custody accounts for the County's school participants.

**COUNTY OF ORANGE**  
**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (Cont'd)**  
**FOR THE YEAR ENDED JUNE 30, 1999**  
**(Dollar Amounts in Thousands)**

**3. DEPOSITS AND INVESTMENTS (Cont'd)**

**B. Investments**

The County's investment policies are governed by State statutes, Board of Supervisors' ordinances and resolutions, the respective bond documents, trust agreements, and other contractual agreements.

External Investment Pools

The County Treasurer sponsors two external investment pools, the Orange County Treasurer's Money Market Commingled Investment Pool (the County Pool) and the Orange County Treasurer's Educational Investment Pool (the Educational Pool).

The County Treasurer has a written Investment Policy Statement (IPS) specifically for the separately managed County and Educational Investment Pools. The assets in the Pools are required by the IPS to consist of the following investments and maximum permissible concentrations based on market value: U.S. Treasury instruments backed by the full faith and credit of the United States government (100%); obligations issued or guaranteed by agencies of the United States government (100%); commercial paper of a high rating (A1/P1) provided by Moody's Investors Service or Standard & Poor's with further restrictions regarding issuer size and maturity (30%) (split-rated issuers may comprise up to 3%); negotiable certificates of deposit issued by a nationally or state-chartered bank or state or federal association or by a state-licensed branch of a foreign bank with at least one billion dollars in assets (30%); bankers' acceptances (40%); money market funds (20%); State of California or municipal debt (10%); "AA" or better receivable-backed securities (10%); medium-term notes (30%); and repurchase agreements collateralized by securities at 102% of the cost adjusted no less frequently than weekly (50%).

Repurchase agreements are limited to a three-month maturity and can only be entered into with entities prescribed in California Government Code Sections 53601 and 53635. The securities underlying the agreements must be delivered to the County's custodial banks. The County enters into written master repurchase agreements that outline obligations of both the County and the dealers.

The County also enters into written contracts with custodial institutions that outline the basic responsibilities of those institutions for securities underlying the repurchase agreements. These custodial contracts and the County's procedures for monitoring the securities are similar to those for collateral on deposits.

All permitted investments are required to comply in every respect with California Government Code Sections 53601 and 53635 (governing the investment of public funds) and other relevant California Government Code provisions.

The IPS expressly prohibits leverage, reverse repurchase agreements, structured notes or any volatile derivatives. The average maturity of the investment pool will not exceed 90 days. The maximum maturity of any portfolio instrument will be thirteen months or less. Under the IPS, no more than 5% of the total market value of the pooled funds may be invested in securities of any one issuer, except for obligations of the United States government, U.S. government agencies or government-sponsored enterprises. No more than 10% may be invested in one Money Market Mutual Fund. All investments will be United States dollar denominated.

Treasury oversight is conducted by the County Treasury Oversight Committee, established in December 1995, which consists of the CEO, the County Auditor-Controller, the County Superintendent of Schools and a public member. In addition, Fitch IBCA, Inc. ("Fitch") conducts a quarterly review of IPS compliance according to agreed upon procedures. On March 10, 1997, June 3, 1998, and again on June 28, 1999, Fitch announced the Pools' ratings of "AAA/V1+." The County and Educational Pools are not registered with the Securities and Exchange Commission.

**COUNTY OF ORANGE**  
**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (Cont'd)**  
**FOR THE YEAR ENDED JUNE 30, 1999**  
**(Dollar Amounts in Thousands)**

**3. DEPOSITS AND INVESTMENTS (Cont'd)**

**B. Investments (Cont'd)**

Unless otherwise required in a trust agreement or other financing document, assessment districts and public school districts are required by legal provisions to deposit their funds with the County Treasurer. The Educational Pool consists entirely of public school districts and therefore includes 100 percent involuntary participants. At June 30, 1999, the County Pool includes approximately .4 percent external involuntary participant deposits for certain assessment districts and certain bond related funds for public school districts.

As of June 30, 1999, floating rate notes comprised less than 24% and 15% respectively, of the County and Educational Pools. Interest received on floating rate notes will rise or fall as the underlying index rate rises or falls. The use of floating rate notes in the County and Educational Pools is such that they hedge the portfolios against the risk of increasing interest rates.

**Condensed Financial Statements**

In lieu of separately issued financial statements for the external pools, condensed financial statements for both pools are presented below as of and for the year ended June 30, 1999:

	<u>County Pool</u>	<u>Educational Pool</u>	<u>Total</u>
<b><u>Statement of Net Assets</u></b>			
Net assets held for pool participants	\$ 1,601,794	\$ 1,000,775	\$ 2,602,569
Equity of internal pool participants	\$ 1,501,704	\$ --	\$ 1,501,704
Equity of external pool participants	100,090	1,000,775	1,100,865
Total Equity	<u>\$ 1,601,794</u>	<u>\$ 1,000,775</u>	<u>\$ 2,602,569</u>
<b><u>Statement of Changes in Net Assets</u></b>			
Net assets at July 1, 1998	\$ 1,488,014	\$ 901,358	\$ 2,389,372
Net change in investments by pool participants	113,780	99,417	213,197
Net Assets at June 30, 1999	<u>\$ 1,601,794</u>	<u>\$ 1,000,775</u>	<u>\$ 2,602,569</u>

**Summary External Pool Financial Disclosures**

Selected summary disclosures for each external pool as of June 30, 1999 are presented below:

	<u>Fair Value</u>	<u>Principal</u>	<u>Interest Rate Range (%)</u>	<u>Maturity Range</u>	<u>Weighted Average Days to Maturity</u>
<b><u>County Pool</u></b>					
Commercial Paper	\$ 483,908	\$ 485,930	Discount	07/01/99-08/25/99	15
Bankers' Acceptances	214,308	216,189	Discount	07/01/99-12/01/99	41
Medium-Term Notes	510,711	507,510	4.97-5.45%	10/08/99-07/01/00	148
Negotiable Certificates of Deposit	425,195	425,000	4.88-5.73%	07/06/99-06/29/00	122
Money Market Mutual Funds	4,279	4,279	Variable	07/01/99	1
	<u>\$ 1,638,401</u>	<u>\$ 1,638,908</u>			<u>87</u>

**COUNTY OF ORANGE**  
**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (Cont'd)**  
**FOR THE YEAR ENDED JUNE 30, 1999**  
**(Dollar Amounts in Thousands)**

**3. DEPOSITS AND INVESTMENTS (Cont'd)**

**B. Investments (Cont'd)**

	Fair Value	Principal	Interest Rate Range (%)	Maturity Range	Weighted Average Days to Maturity
<u>Educational Pool</u>					
U.S. Government Agencies	\$ 18,311	\$ 18,495	Discount	08/10/99-08/24/99	47
Commercial Paper	291,353	292,390	Discount	07/01/99-07/29/99	8
Bankers' Acceptances	112,480	113,255	Discount	07/01/99-12/21/99	33
Medium-Term Notes	298,691	295,288	4.97-9.63%	07/01/99-06/15/00	150
Negotiable Certificates of Deposit	297,006	295,900	4.87-5.73%	07/02/99-06/29/00	116
Money Market Mutual Funds	1,975	1,975	Variable	07/01/99	1
	<u>\$ 1,019,816</u>	<u>\$ 1,017,303</u>			<u>85</u>

Level of Custodial Credit Risk

Investments are categorized below as prescribed by GASB Statement No. 3 to indicate the level of custodial credit risk assumed by the County at year-end. Category 1 includes investments that are insured or registered, or securities held by the County or its agent in the County's name. Category 2 includes uninsured and unregistered investments with securities held by the counterparty's trust department or agent in the County's name. Category 3 includes uninsured and unregistered investments with securities held by the counterparty, or by its trust department or agent but not in the County's name.

**LEVEL OF CUSTODIAL CREDIT RISK**

	CATEGORY			NOT SUBJECT TO CATEGORIZATION	FAIR VALUE
	1	2	3		
<u>County Pool:</u>					
Commercial Paper	\$ 483,908	\$ --	\$ --	\$ --	\$ 483,908
Bankers' Acceptances	214,308	--	--	--	214,308
Medium-Term Notes	510,711	--	--	--	510,711
Negotiable Certificates of Deposits	425,195	--	--	--	425,195
Money Market Mutual Funds	--	--	--	4,279	4,279
Total Investments in County Pool	<u>1,634,122</u>	<u>--</u>	<u>--</u>	<u>4,279</u>	<u>1,638,401</u>
<u>Educational Pool:</u>					
U.S. Government Agencies	18,311	--	--	--	18,311
Commercial Paper	291,353	--	--	--	291,353
Bankers' Acceptances	112,480	--	--	--	112,480
Medium-Term Notes	298,691	--	--	--	298,691
Negotiable Certificates of Deposits	297,006	--	--	--	297,006
Money Market Mutual Funds	--	--	--	1,975	1,975
Total Investments in Educational Pool	<u>\$ 1,017,841</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ 1,975</u>	<u>\$ 1,019,816</u>

**COUNTY OF ORANGE**  
**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (Cont'd)**  
**FOR THE YEAR ENDED JUNE 30, 1999**  
**(Dollar Amounts in Thousands)**

**3. DEPOSITS AND INVESTMENTS (Cont'd)**

**B. Investments (Cont'd)**

<u>LEVEL OF CUSTODIAL CREDIT RISK</u>						
	CATEGORY			NOT SUBJECT TO	FAIR	
	1	2	3	CATEGORIZATION	VALUE	
<u>Specific Investments:</u>						
U.S. Government Agencies	\$ 8,454	\$ --	\$ --	\$ --	\$ 8,454	
Commercial Paper	10,731	--	--	--	10,731	
Bankers' Acceptances	1,494	--	--	--	1,494	
Medium-Term Notes	7,312	--	--	--	7,312	
Negotiable Certificates of Deposits	4,003	--	--	--	4,003	
Money Market Mutual Funds	--	--	--	32,388	32,388	
Total of Specific Investments	31,994	--	--	32,388	64,382	
<u>Investments with Trustees:</u>						
Repurchase Agreements	--	34,023	--	--	34,023	
U.S. Government Securities	--	16,888	--	--	16,888	
Mutual Funds	--	--	--	171,599	171,599	
Guaranteed Investment Contracts	--	--	--	97,528	97,528	
Total Investments with Trustees	--	50,911	--	269,127	320,038	
Total Investments	\$ 2,683,957	\$ 50,911	\$ --	\$ 307,769	\$ 3,042,637	

**RECONCILIATION OF DEPOSITS AND INVESTMENTS**

	<b><u>Total</u></b>
<b><u>Total Cash and Investments - Note 3:</u></b>	
Total Investments	\$ 3,042,637
Total Deposits - Carrying Amount Overdraft	(51,189)
Bank Investment Contracts	57,950
Imprest Cash Funds	1,867
Total Cash and Investments - Note 3	<u>\$ 3,051,265</u>
<b><u>Total Cash and Investments - Combined Balance Sheet * :</u></b>	
Pooled Cash/Investments	\$ 2,599,058
Specific Investments:	
Cash Equivalents	\$ 25,160
Other Specific Investments	<u>44,525</u>
Imprest Cash Funds	1,867
Restricted Cash and Investments with Trustee	380,655
Total Cash and Investments - Combined Balance Sheet *	<u>\$ 3,051,265</u>

\* Amounts in the Combined Balance Sheet differ from amounts in the "Level of Custodial Credit Risk" schedule because that schedule is not required to report on deposits, overdraft of imprest cash which are reported in the Combined Balance Sheet.

**COUNTY OF ORANGE**  
**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (Cont'd)**  
**FOR THE YEAR ENDED JUNE 30, 1999**  
**(Dollar Amounts in Thousands)**

**4. CHANGES IN GENERAL FIXED ASSETS**

The Schedule of Changes in General Fixed Assets includes general fixed assets of the County other than those accounted for in proprietary funds or similar trust funds. Additions and retirements in the County's general fixed assets during the fiscal year were as follows:

	Balance July 1, 1998	Additions	Retirements	Balance June 30, 1999
Land	\$ * 243,180	\$ 825	\$ 8	\$ 243,997
Structures and Improvements	* 586,576	4,154	508	590,222
Equipment	168,846	45,687	29,224	185,309
Construction in Progress	145,121	48,302	4,252	189,171
Total	<u>\$ 1,143,723</u>	<u>\$ 98,968</u>	<u>\$ 33,992</u>	<u>\$ 1,208,699</u>

Construction in progress is composed of the following:

<u>Project Title</u>	<u>Project Authorization</u>	<u>Expenditures to Date</u>	<u>Committed</u>	<u>Remaining Authorization</u>
Bolsa Chica Linear Park	\$ 5,769	\$ 511	\$ 50	\$ 5,208
Theo Lacy Building A Phase 2	30,377	5,725	23,366	1,286
Central Court House Remodel	5,056	1,199	4	3,853
Central Courthouse Seismic Retrofit	5,465	1,682	7	3,776
CFD 87-5E Library Construction	5,962	--	--	5,962
Civic Center Development Report & Design	12,092	9,541	12	2,539
Foothill SE Substation	6,738	304	19	6,415
HCA Remodel 1719/1725 W 17 <sup>th</sup> Street	12,068	7,555	16	4,497
Joplin-Wastewater System	5,451	698	--	4,753
Theo Lacy Laundry Facility	5,737	--	--	5,737
CFD 88-1A Library Construction	6,690	5,999	--	691
Muni/South - 5 Court Additional Design	6,213	1,415	60	4,738
New Communications Center	16,863	1,303	--	15,560
New Criminal Court Facility	5,224	3,951	74	1,199
New South Court Facility	5,053	103	2	4,948
Newport Harbor Headquarters Building	7,467	2,527	1,085	3,855
Probation-Juvenile Hall 30 Bed				
Expansion/Security Fence	13,378	4,057	10	9,311
Remote Sites	8,000	5,247	--	2,753
CFD 87-4A School Facilities	5,984	5,360	--	624
Theo Lacy Jail Expansion	219,317	84,873	1,879	132,565
Upper Newport Bay Coastal Development				
Plan	23,021	3,925	2,096	17,000
All Other Projects **	142,877	43,196	6,103	93,578
Total	<u>\$ 554,802</u>	<u>\$ 189,171</u>	<u>\$ 34,783</u>	<u>\$ 330,848</u>

\* The beginning balances for Land and Structures and Improvements were adjusted by \$ 49,565 to reflect a reclassification made from operating leases to capital leases.

\*\* "All Other Projects" represents projects with individual appropriations of less than \$5 million.

**COUNTY OF ORANGE**  
**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (Cont'd)**  
**FOR THE YEAR ENDED JUNE 30, 1999**  
**(Dollar Amounts in Thousands)**

**5. COUNTY PROPERTY ON LEASE TO OTHERS**

The County has noncancelable operating leases for certain buildings which are not material to the County's general operations. The Airport enterprise fund derives a substantial portion of its revenues from noncancelable operating leases with air carriers and concessionaires, and the Waste Management enterprise fund derives revenue from noncancelable operating leases with synthetic fuels corporations. The enterprise funds' property under operating leases, consisting primarily of structures and improvements, at June 30, 1999, approximates \$67,296.

The County's general fund, special revenue funds and enterprise funds lease real property to others under operating lease agreements for recreational boating, retail, restaurant, and other commercial operations. Future minimum rentals to be received under these noncancelable operating leases as of June 30, 1999, are as follows:

	General Fund	Special Revenue Funds	Enterprise Funds
FY 1999-2000	\$ 44	\$ 6,311	\$ 26,494
FY 2000-2001	44	5,816	18,277
FY 2001-2002	43	4,470	15,292
FY 2002-2003	34	4,274	15,255
FY 2003-2004	31	4,242	15,255
Subsequent Years	47	108,100	31,203
	<hr/>	<hr/>	<hr/>
Total future minimum rentals	<u>\$ 243</u>	<u>\$ 133,213</u>	<u>\$ 121,776</u>

Total contingent rentals, which arise primarily from a percentage of lessee's gross revenues, amounted to approximately \$11 (general fund), \$3,139 (special revenue funds), and \$13,894 (enterprise funds) for the year ended June 30, 1999.

**6. LONG-TERM OBLIGATIONS**

**General Obligation Bonds Payable**

The amount of bonded indebtedness the County can incur is limited by law to 1.25 percent of the last equalized assessment property tax roll. At June 30, 1999, the County had no net general obligation bonded debt. The County's legal debt limit for the year was \$2.4 billion.

**Revenue Bonds Payable, Certificates of Participation, and Master Lease Agreements**

The County has issued various Certificates of Participation (COPs). These certificates represent the proportionate interest in the rights of the registered owners thereof in lease payments to be made by the County pursuant to lease agreements with the Orange County Public Facilities Corporation (OCPFC) for the right and use of occupancy by the County of certain real property, together with all buildings and other improvements thereon (collectively the "leased facilities"). These financings are shown as OCPFC revenue bonds and are secured by the leased facilities. Revenue for interest payments and COPs retirements is serviced by revenues generated from lease payments made by the general fund on the leased facilities. The general fund is reimbursed for a portion of these lease payments by other County funds.

Airport enterprise fund revenue bonds are secured and serviced primarily by a pledge of the net revenues of the Airport and its rights to receive net revenues.

**COUNTY OF ORANGE**  
**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (Cont'd)**  
**FOR THE YEAR ENDED JUNE 30, 1999**  
**(Dollar Amounts in Thousands)**

**6. LONG-TERM OBLIGATIONS (Cont'd)**

Orange County Financing Authority and the Orange County Development Agency (OCDA) revenue bonds are secured and serviced by a pledge of OCDA's allocation of property taxes derived from the total incremental taxable value of properties within the redevelopment areas.

Orange County Civic Center Authority revenue bonds are secured by monthly rental payments paid by the State of California and by all other revenues of the Authority from the State Building project, including interest earnings on invested funds.

Master Lease Equipment Obligations are serviced by base rental payments on acquired equipment.

Refunding Recovery Bonds are secured by a pledge of certain motor vehicle license fees and Recovery COPs are secured by a pledge of certain redirected revenues, motor vehicle license fees and sales tax. This pledged revenue is collected by the State of California and allocated to the County. The County has elected to participate in an "intercept program," whereby the State Controller pays motor vehicle license fees and sales tax directly to a trustee who pays principal and interest on the bonds and COPs.

Orange County Special Financing Authority (OCSFA) Teeter Plan Revenue Bonds are limited obligations of OCSFA payable solely from revenues consisting primarily of delinquent tax payments to be made by taxpayers under the County Teeter Plan program. In April 1999, the Industrial Bank of Japan, who provided an irrevocable letter of credit, was replaced with a municipal bond insurance policy issued by AMBAC and a Standby Bond Purchase Agreement provided by First Union National Bank.

Pension Obligation Bonds (POBs) are serviced from any legally available monies of the County. Such available monies include taxes, income, cash receipts and other monies which are received for the general fund which are generally available for the payment of current expenditures and other obligations of the County.

Orange County Public Financing Authority (OCPFA) Waste Management System Refunding Revenue Bonds are limited obligations of OCPFA payable solely from specified net operating revenues of the Waste Management System.

In prior years, various financing issues have been advance refunded. These are considered defeased, and the long-term debt liability has been removed from the related general long-term debt account group and enterprise funds. At June 30, 1999, \$136,690 of defeased debt remained outstanding.

The County has not timely complied with certain debt covenants of one debt issue requiring timely submission of financial reports to the trustee; however, as of June 30, 1999, all financial reports have been submitted. The County will be modifying the terms of the covenants with the trustee in order to match the County's operating cycle.

During fiscal year 1998-99, the County issued the following new long-term obligations:

**Teeter Plan Revenue Bond Remarketing**

The \$32,375 Series A Bonds underwent a mandatory tender on November 1, 1998. Of the original amount of \$32,375, \$7,700 were remarketed and converted from fixed rate bonds at 6.85% to variable rate bonds. After the conversion, interest rates, determined on a weekly basis, have ranged from 2.75% to 6.85%, payable monthly. The remaining bonds, \$24,675, were not remarketed reducing the outstanding 1995 Series Bonds from \$155,000 to \$130,325.

**COUNTY OF ORANGE**  
**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (Cont'd)**  
**FOR THE YEAR ENDED JUNE 30, 1999**  
**(Dollar Amounts in Thousands)**

**6. LONG-TERM OBLIGATIONS (Cont'd)**

Revenue bonds and certificates outstanding and related activity for the year ended June 30, 1999 were as follows:

Description	Balance July 1, 1998	Issuances, Discount Amortization and Accretions	Assignments/ Retirements	Balance June 30, 1999
<b><u>General Long-Term Debt Account Group:</u></b>				
<b>Orange County Civic Center Authority 1971</b>				
<b><u>State Building Revenue Bonds:</u></b>				
Date Issued: December 1, 1971				
Interest Rate: 5.00% to 5.40%				
Original Amount: \$4,600				
Maturing in installments through December 1, 2001	\$ 1,200	\$ --	\$ (270)	\$ 930
<b>Master Lease</b>				
<b>Schedule No. 2, 1990 Equipment</b>				
<b><u>Project Purchaser Certificates:</u></b>				
Date Issued: January 3, 1991				
Interest Rate: 7.00%				
Original Amount: \$16,475				
Maturing in installments through September 1, 2000.	4,515	--	(1,541)	2,974
<b>Orange County Public Facilities</b>				
<b><u>Corporation Revenue Bonds:</u></b>				
Date Issued: August 1, 1991 - Current Interest				
Rate Bonds (CIB) and Capital Appreciation				
Bonds (CAB)				
To refund prior December 22, 1987 bond issue				
Interest Rate: CIB - 4.40% to 6.75%				
Interest Rate: CAB - 6.85% to 7.05%				
Original Amount: CIB - \$24,495				
Original Amount: CAB - \$9,084				
Maturing in installments through December 1, 2018.	29,212	1,115	(1,715)	28,612
<b>Orange County Financing Authority</b>				
<b><u>Revenue Bonds Series A:</u></b>				
Date Issued: June 1, 1992 - Current Interest				
Rate Bonds (CIB) and Capital Appreciation				
Bonds (CAB)				
To refund prior June 1, 1989 Orange County				
Development Agency bond issue				
Interest Rate: CIB - 4.50% to 6.50%				
Interest Rate: CAB - 6.50% to 6.55%				
Original Amount: CIB - \$27,150				
Original Amount: CAB - \$932				
Maturing in installments through September 1, 2022.	28,034	92	(165)	27,961

**COUNTY OF ORANGE**  
**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (Cont'd)**  
**FOR THE YEAR ENDED JUNE 30, 1999**  
**(Dollar Amounts in Thousands)**

**6. LONG-TERM OBLIGATIONS (Cont'd)**

Description	Balance July 1, 1998	Issuances, Discount Amortization and Accretions	Assignments/ Retirements	Balance June 30, 1999
<b>Orange County Public Facilities</b>				
<b><u>Corporation Revenue Bonds:</u></b>				
Date Issued: June 1, 1992 and delivered July 7, 1992 to refund prior April 1, 1989 bond issue				
Interest Rate: 3.20% to 6.375%				
Original Amount: \$102,735				
Maturing in installments through June 1, 2019.				
	91,085	--	(2,290)	88,795
<b>Orange County Financing Authority</b>				
<b><u>Revenue Bonds Series B:</u></b>				
Date Issued: July 1, 1992				
Interest Rate: 4.20% to 7.40%				
Original Amount: \$3,185				
Maturing in installments through September 1, 2000.				
	1,395	--	(435)	960
<b>Orange County Public Facilities</b>				
<b><u>Corporation Revenue Bonds</u></b>				
<b><u>Master Lease Program:</u></b>				
Date Issued: February 1, 1993				
Interest Rate: 3.40% to 5.50%				
Original Amount: \$24,780				
Maturing in installments through September 1, 2003.				
	4,875	--	--	4,875
<b>Orange County Development</b>				
<b><u>Agency Revenue Bonds:</u></b>				
Date Issued: August 1, 1993 to refund prior September 1, 1987 bond issue				
Interest Rate: 3.25% to 6.20%				
Original Amount: \$57,965				
Maturing in installments through September 1, 2023.				
	54,830	--	(950)	53,880
<b>County of Orange Taxable Pension</b>				
<b><u>Obligation Bonds - Series 1994A:</u></b>				
Date Issued: September 1, 1994				
Interest Rate: 6.15% to 8.21%				
Original Amount: \$209,840				
Maturing in installments through September 1, 2004.				
	63,850	--	(5,000)	58,850

**COUNTY OF ORANGE**  
**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (Cont'd)**  
**FOR THE YEAR ENDED JUNE 30, 1999**  
**(Dollar Amounts in Thousands)**

**6. LONG-TERM OBLIGATIONS (Cont'd)**

Description	Balance July 1, 1998	Issuances, Discount Amortization and Accretions	Assignments/ Retirements	Balance June 30, 1999
<b>County of Orange</b>				
<b><u>Refunding Recovery Bonds:</u></b>				
Date Issued: June 1, 1995				
Interest Rate: 5.0% to 6.50%				
Original Amount: \$278,790				
Maturing in installments through June 1, 2015.	247,790	--	(335)	247,455
<b>Orange County Special Financing Authority</b>				
<b><u>Teeter Plan Revenue Bonds</u></b>				
<b><u>Series A through E:</u></b>				
Date Issued: June 1, 1995				
Interest Rate: 6.15% to 6.85% (Series A, C-E)				
Interest Rate: Variable (Series B)				
Original Amount: \$155,000				
Maturing in installments through November 1, 2014.	155,000	--	(24,675)	130,325
<b>Orange County Public Facilities Corporation,</b>				
<b><u>1996 Recovery Certificates of Participation</u></b>				
<b><u>Series A:</u></b>				
Date Issued: June 1, 1996				
Interest Rate: 4.20% to 6.00%				
Original Amount: \$760,800				
Maturing in installments through July 1, 2026.	744,705	--	(20,355)	724,350
<b>County of Orange, Taxable Refunding Pension</b>				
<b><u>Obligation Bonds - Series A:</u></b>				
Date Issued: June 1, 1996 - Current Interest Rate Bonds (CIB)				
Date Issued: June 12, 1996 - Capital Appreciation Bonds (CAB)				
To refund prior September 28, 1994 bond issue.				
Interest Rate: CIB - 7.47% to 7.72%				
Interest Rate: CAB - 8.09% to 8.26%				
Original Amount: CIB - \$81,680				
Original Amount: CAB - \$40,000				
Maturing in installments through September 1, 2010 (CIB) and September 1, 2016 (CAB).	128,866	3,949	--	132,815

**COUNTY OF ORANGE**  
**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (Cont'd)**  
**FOR THE YEAR ENDED JUNE 30, 1999**  
**(Dollar Amounts in Thousands)**

**6. LONG-TERM OBLIGATIONS (Cont'd)**

Description	Balance July 1, 1998	Issuances, Discount Amortization and Accretions	Assignments/ Retirements	Balance June 30, 1999
<b>County of Orange, Taxable Refunding Pension</b>				
<b><u>Obligation Bonds - Series A:</u></b>				
Date Issued: January 1, 1997 - Current Interest				
Rate Bonds (CIB)				
Date Issued: January 14, 1997 - Capital				
Appreciation Bonds (CAB)				
To refund a substantial portion of the				
September 1, 1994 bond issue.				
Interest Rate: CIB - 5.71% to 7.36%				
Interest Rate: CAB - 7.33% to 7.96%				
Original Amount: CIB - \$71,605				
Original Amount: CAB - \$65,318				
Maturing in installments through September 1,				
2010 (CIB) and September 1, 2021 (CAB).				
	142,664	5,801	(4,130)	144,335
<b>County of Orange, Superior Court ICMS</b>				
<b><u>1997 Certificates of Participation:</u></b>				
Date Issued: July 30, 1997				
Interest Rate: 4.50% to 5.00%				
Original Amount: \$7,830				
Maturing in installments through August 1, 2001.				
	7,830	--	(2,455)	5,375
<b>Subtotal - General Long-Term Debt</b>				
<b>Account Group</b>	<b>\$ 1,705,851</b>	<b>\$ 10,957</b>	<b>\$ (64,316)</b>	<b>\$ 1,652,492</b>

The beginning balance for the general long-term debt account group has been restated to include the reclassification of the Orange County Civic Center Authority 1971 State Building Revenue Bonds from an expendable trust fund to a governmental fund type.

**Enterprise Funds:**

**Airport Enterprise Fund**

**Revenue Bonds:**

Date Issued: July 1, 1993 to refund \$68,440 of the 1987 Airport Revenue bond issue.

Interest Rate: 3.00% to 5.50%

Original Amount: \$79,755

Maturing in installments through July 1, 2018.

74,709                      107                      (2,125)                      72,691

Deferred Amount on Refunding (1993 Airport Revenue Bonds)

(9,408)                      441                      --                      (8,967)

**COUNTY OF ORANGE**  
**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (Cont'd)**  
**FOR THE YEAR ENDED JUNE 30, 1999**  
**(Dollar Amounts in Thousands)**

**6. LONG-TERM OBLIGATIONS (Cont'd)**

Description	Balance July 1, 1998	Issuances, Discount Amortization and Accretions	Assignments/ Retirements	Balance June 30, 1999
<b>Airport Enterprise Fund</b>				
<b><u>Revenue Bonds:</u></b>				
Date Issued: April 2, 1997 to refund \$131,490 of the 1987 Airport Revenue bond issue.				
Interest Rate: 5.00% to 6.00%				
Original Amount: \$135,050				
Maturing in installments through July 1, 2012.	137,109	(382)	(6,245)	130,482
Deferred Amount on Refunding (1997 Airport Revenue Bonds)	(8,604)	1,399	--	(7,205)
<b>Orange County Public Financing Authority</b>				
<b><u>Revenue Bonds:</u></b>				
Date Issued: November 18, 1997 to refund \$77,445 of the 1988 OCPFC Revenue bond issue.				
Interest Rate: 4.375% to 5.75%				
Original Amount: \$77,300				
Maturing in installments through December 1, 2013.	79,377	(215)	(3,220)	75,942
Deferred Amount on Refunding (1997 Orange County Public Financing Authority Revenue Bonds)	(6,899)	714	--	(6,185)
<b>Subtotal - Enterprise Funds</b>	<u>\$ 266,284</u>	<u>\$ 2,064</u>	<u>\$ (11,590)</u>	<u>\$ 256,758</u>
<b><u>Internal Service Funds:</u></b>				
<b>Orange County Public Facilities</b>				
<b><u>Corporation Revenue Bonds:</u></b>				
Date Issued: July 1, 1986				
Interest Rate: 4.50% to 7.50%				
Original Amount: \$37,225				
Maturing in installments through July 1, 1998.	\$ 3,280	\$ --	\$ (3,280)	\$ --
<b>Master Lease</b>				
<b>Schedule No. 2, 1990 Equipment</b>				
<b><u>Project Purchaser Certificates:</u></b>				
Date Issued: January 3, 1991				
Interest Rate: 7.00%				
Original Amount: \$16,475				
Maturing in installments through September 1, 2000.	459	--	(459)	--
<b>Subtotal - Internal Service Funds</b>	<u>\$ 3,739</u>	<u>\$ --</u>	<u>\$ (3,739)</u>	<u>\$ --</u>
<b>Total</b>	<u>\$ 1,975,874</u>	<u>\$ 13,021</u>	<u>\$ (79,645)</u>	<u>\$ 1,909,250</u>

**COUNTY OF ORANGE**  
**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (Cont'd)**  
**FOR THE YEAR ENDED JUNE 30, 1999**  
**(Dollar Amounts in Thousands)**

**6. LONG-TERM OBLIGATIONS (Cont'd)**

**Debt Service Requirements to Maturity**

The following is a schedule of all long-term debt service requirements to maturity by fund type and account group on an annual basis (in thousands):

<u>Fiscal Year(s) Ending June 30</u>	<u>Enterprise Funds</u>	<u>General Long- Term Debt Account Group</u>	<u>Total</u>
2000	\$ 26,737	\$ 165,726	\$ 192,463
2001	26,806	163,641	190,447
2002	26,621	160,643	187,264
2003	26,740	132,913	159,653
2004	26,587	139,453	166,040
2005-2027	<u>275,535</u>	<u>2,318,333</u>	<u>2,593,868</u>
Total	409,026	3,080,709	3,489,735
Less: Interest and Unaccrued			
Principal	(131,286)	(1,460,035)	(1,591,321)
Deferred Amount			
on Refunding	(22,357)	--	(22,357)
Discount	(2,165)	--	(2,165)
Add: Premium	3,540	--	3,540
Accrued Value of CABs	<u>--</u>	<u>31,818</u>	<u>31,818</u>
Principal Payable	<u>\$ 256,758</u>	<u>\$ 1,652,492</u>	<u>\$ 1,909,250</u>

**Special Assessment District Bonds**

Special Assessment District Bonds consist of Assessment District Bonds and Community Facilities District Bonds.

Assessment District Bonds are issued pursuant to provisions of the Improvement Bond Act of 1915 (Division 10 of the California Streets and Highways Code). Proportionate shares of principal and interest installments sufficient in aggregate to meet annual bond debt service requirements are included on the regular county tax bills sent to owners of property against which there are unpaid assessments. Assessment District Bonds are limited obligations of the County and are payable by the pledged special assessments. Neither the faith and credit nor the taxing power of the County of Orange or any political subdivision thereof is pledged to the payment of the bonds. Accordingly, such obligations are not included in the accompanying general purpose financial statements.

Community Facilities District Bonds are issued pursuant to the Mello-Roos Community Facilities Act of 1982, as amended and are payable from a portion of certain special taxes to be levied on property within the boundaries of the Community Facilities District. Neither the faith and credit nor the taxing power of the County, the State, or any political subdivision thereof is pledged to the payment of the bonds. Except for the special taxes, no other taxes are pledged to the payment of the bonds. The bonds are not general or special obligations of the County nor general obligations of the District, but are limited obligations of the District payable solely from certain amounts deposited by the District in the special tax fund. Accordingly, such obligations are not included in the accompanying general purpose financial statements.

**COUNTY OF ORANGE**  
**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (Cont'd)**  
**FOR THE YEAR ENDED JUNE 30, 1999**  
**(Dollar Amounts in Thousands)**

**6. LONG-TERM OBLIGATIONS (Cont'd)**

The County is acting as an agent of the assessment and community facilities districts in collecting the assessments and special taxes, forwarding the collections to other paying agents or directly to bondholders, and initiating any necessary foreclosure proceedings. Because of the County's limited obligation in connection with special assessment district and community facilities district debt, related transactions are recorded as contributions and distributions within the investment trust fund.

Major capital outlay expenditures relating to these bonds are accounted for in the "Special Assessment Districts and Service Areas" capital projects fund.

Special assessment district and community facilities district bonds outstanding as of June 30, 1999, are \$705,067.

**7. ARBITRAGE REBATE PAYABLE**

The Tax Reform Act of 1986 instituted certain arbitrage restrictions with respect to the issuance of tax-exempt bonds after August 31, 1986. Arbitrage regulations deal with the investment of all tax-exempt bond proceeds at an interest yield greater than the interest yield paid to bondholders. Generally, all interest paid to bondholders can be retroactively rendered taxable if applicable rebates are not reported and paid to the Internal Revenue Service (IRS) at least every five years.

In accordance with the arbitrage regulations, if excess earnings were calculated, 90% of the amount calculated would be due to the Internal Revenue Service (IRS) at the end of each five year period. The remaining 10% would be recorded as a liability and paid after all bonds had been redeemed. During the current year, the County performed calculations of excess investment earnings on various bonds and financings. Liabilities were calculated for the two issues listed below. However, the five year reporting period has not occurred and therefore the full amount calculated has been booked as a liability to the IRS. The rebate amounts are recorded as liabilities in the general long term debt account group and the Integrated Waste Management Department enterprise fund. The County has determined that an arbitrage rebate liability of \$59 at June 30, 1999 is due to the IRS and is comprised of the following.

County of Orange Certificates of Participation, 1997	\$ 9
Orange County Public Financing Authority Refunding Revenue Bonds, 1997	50
	<u>\$ 59</u>

During FY 1998-99, the County made no arbitrage rebate payments.

**8. CONDUIT DEBT OBLIGATIONS**

From 1980 through 1999 the County issued bonds under the authority of Chapter 7 of Part 5 of Division 3 of the Health and Safety Code of the State of California. The purpose of the bonds are to finance the purchase of single family homes and the construction of multi-family units to benefit low and moderate income families.

The bonds are secured by the property financed and are payable solely from revenue of the projects and payments received on the underlying mortgage loans.

The bonds do not constitute an indebtedness or liability of the County and neither the County, the State of California nor any political subdivisions thereof is obligated in any manner for the repayment of the bonds and in no event shall the bonds be payable out of any funds or properties of the County. Accordingly, the bonds are not reported as liabilities in the accompanying financial statements.

As of June 30, 1999 there were 88 series of bonds outstanding, with an aggregate principal amount payable of \$1,379,722.

**COUNTY OF ORANGE**  
**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (Cont'd)**  
**FOR THE YEAR ENDED JUNE 30, 1999**  
**(Dollar Amounts in Thousands)**

**9. LEASES**

Commitments Under Operating Leases

The County is committed under various operating leases primarily for office buildings, office equipment and other equipment. The following is an approximation of future minimum operating lease commitments:

	Equipment	Real Property	Total
FY 1999-2000	\$ 12,552	\$ 30,197	\$ 42,749
FY 2000-2001	8,423	29,119	37,542
FY 2001-2002	5,420	23,454	28,874
FY 2002-2003	751	21,316	22,067
FY 2003-2004	--	19,719	19,719
Subsequent years	--	71,004	71,004
Total	<u>\$ 27,146</u>	<u>\$ 194,809</u>	<u>\$ 221,955</u>

Total rent expenditures for operating leases incurred for FY 1998-99 were \$9,327.

Capital Leases

The following is an analysis of property leased under capital leases:

	General Fixed Assets Account Group
Equipment	\$ 48
Land, Structures and Improvements	50,184
Total	<u>\$ 50,232</u>

The following are the future minimum lease payments under capital leases together with the present value of the net minimum lease payments as of June 30, 1999:

	General Long-Term Debt Account Group
FY 1999-2000	\$ 5,571
FY 2000-2001	5,552
FY 2001-2002	5,527
FY 2002-2003	5,494
FY 2003-2004	5,695
Subsequent years	42,204
Total minimum lease payments	70,043
Less: amount representing interest	(26,779)
Present value of net minimum lease payments	<u>\$ 43,264</u>

**COUNTY OF ORANGE**  
**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (Cont'd)**  
**FOR THE YEAR ENDED JUNE 30, 1999**  
**(Dollar Amounts in Thousands)**

**9. LEASES (Cont'd)**

The majority of the capital lease obligations payable in the general long-term debt account group will be financed by the general fund. Property acquired under capital leases is collateral for the capital lease obligations.

The following is a summary of changes in capital lease obligations for the general long-term debt account group:

	Lease Principal Outstanding July 1, 1998*	Obligations Incurred During Year	Lease Principal Paid/Reduced During Year	Lease Principal Outstanding June 30, 1999
Total capital lease obligations	<u>\$ 47,959</u>	<u>\$ 48</u>	<u>\$ 4,743</u>	<u>\$ 43,264</u>

\* The beginning balance for Lease Principal Outstanding was adjusted by \$44,921 to primarily reflect a reclassification made from operating leases to capital leases.

**10. INTERFUND RECEIVABLES AND PAYABLES**

Interfund receivables and payables by fund are as follows:

	Due From Other Funds	Due to Other Funds
General Fund	<u>\$ 90,730</u>	<u>\$ 31,509</u>
	<u>90,730</u>	<u>31,509</u>
Special Revenue Funds		
Parking Facilities & Civic Center Authority	88	56
Roads	1,559	1,324
Public Library	45	79
Redevelopment Agency	1,415	445
Flood Control District	1,732	1,228
Harbors, Beaches & Parks District	2,660	2,828
Service Areas, Lighting & Maintenance Districts	10	10
Other Environmental Management	4,675	3,099
Other Public Protection	9,899	5,542
Community Services	66	279
Taxable Note Repayment	--	408
Designated Special Revenue Funds	7,277	2,256
Restricted Refinancing Proceeds	9,726	--
Recovery Certificates of Participation	101	6
Schedule 1 County - Administered Accounts	17	--
Plan of Adjustment Available Cash	6,515	3
Deferred Compensation Reimbursement	64	2
	<u>45,849</u>	<u>17,565</u>
Debt Service Funds		
Redevelopment Agency Bonds	494	2,352
Pension Obligation Bonds	36	5,203
Refunding Recovery Bonds	--	21
	<u>530</u>	<u>7,576</u>

**COUNTY OF ORANGE**  
**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (Cont'd)**  
**FOR THE YEAR ENDED JUNE 30, 1999**  
**(Dollar Amounts in Thousands)**

**10. INTERFUND RECEIVABLES AND PAYABLES (Cont'd)**

	Due From Other Funds	Due to Other Funds
Capital Projects Funds		
Criminal Justice Facilities	\$ 6,764	\$ 6
Public Library	26	1
Flood Control District	955	182
Redevelopment Agency	2,264	760
Special Assessment Districts and Service Areas	493	51
	<u>10,502</u>	<u>1,000</u>
Enterprise Funds		
Airport	542	5,053
Waste Management	2,552	3,224
	<u>3,094</u>	<u>8,277</u>
Internal Service Funds		
Self-Insured Benefits	21	41
Unemployment Insurance	57	2
County Indemnity Health Plan	280	16
Workers' Compensation	157	19
Property and Casualty Risk	511	16
Transportation	2,634	159
Publishing Services	21	875
Telephone	326	12
	<u>4,007</u>	<u>1,140</u>
Trust and Agency Funds		
Expendable Trust		
Orange County Housing Authority	489	--
Transportation Corridors	4	--
Nonexpendable Trust		
Regional Park Endowment	2	--
Pension Trust		
Defined Benefit Retirement Plan	19	--
Investment Trust		
Investment Pool	760	71
Agency		
Unapportioned Tax and Interest Funds	--	22,298
Clearing and Revolving Funds	3,845	--
Departmental Funds	9,405	79,909
Trial Court Operations	118	9
	<u>14,642</u>	<u>102,287</u>
Total	<u>\$ 169,354</u>	<u>\$ 169,354</u>

**11. INTERFUND TRANSFERS**

Operating transfers in totaling \$192,643 are comprised of \$64,068 into the general fund, \$35,856 into the special revenue funds, \$82,030 into the debt service funds, \$10,689 into the capital projects funds. Operating transfers out totaling \$192,643 are comprised of \$104,301 out of the general fund, \$41,829 out of the special revenue funds, \$24,098 out of the debt service funds, \$4,984 out of the capital projects funds, \$17,156 out of the enterprise funds, and \$275 out of the internal service funds.

**COUNTY OF ORANGE**  
**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (Cont'd)**  
**FOR THE YEAR ENDED JUNE 30, 1999**  
**(Dollar Amounts in Thousands)**

**11. INTERFUND TRANSFERS (Cont'd)**

Residual equity transfers from other funds totaling \$5,858 are comprised of \$487 into the general fund and \$5,371 into the investment trust fund. Residual equity transfers to other funds totaling \$5,858 are comprised of \$487 out of the special revenue funds and \$5,371 out of the capital projects fund.

**12. DEFICIT EQUITY BALANCES OF INDIVIDUAL FUNDS**

The following funds have deficit fund balance/retained earnings:

<u>Fund</u>	<u>Deficit</u>
Internal Service	
Workers' Compensation	\$20,111
Transportation	295

The deficit in the Workers' Compensation Fund results from accrual of known losses and actuarially-determined incurred but not reported claims (IBNR). Charges to County departments in prior years have provided for a positive cash flow, however, they were not sufficient to entirely fund the IBNR, thus resulting in the deficit. The County's 5-Year Plan is to increase the charges to County departments to achieve complete funding of the deficit.

Although the Transportation internal service fund had a deficit in retained earnings, total fund equity is not in a deficit since it includes contributed capital of \$17,629.

**13. BUDGETARY BASIS OF ACCOUNTING**

Reconciliation of Actual Operations on a Budgetary Basis to Modified Accrual Basis

The accompanying Combined Statement of Revenues, Expenditures/Encumbrances and Changes in Fund Balances - Budget and Actual on Budgetary Basis presents comparisons of the legally adopted budget (more fully described in Note 2.D) with actual data on a budgetary basis. Because accounting principles applied for purposes of developing data on a budgetary basis differ significantly from those used to present financial statements in conformity with GAAP, a reconciliation of resultant basis, timing, and entity differences in the corresponding ending fund balances as reported on the general purpose financial statements for the year ended June 30, 1999 is presented below:

	<u>Governmental Fund Types</u>			
	<u>General</u>	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Capital Projects</u>
Fund balances, as reported on the Combined Statement of Revenues, Expenditures/Encumbrances and Changes in Fund Balances (budgetary basis)	\$ 153,659	\$ 360,852	\$ 248,248	\$ 302,908
Adjustments:				
Effects of encumbrances on expenditures (timing differences)	52,040	24,101	--	(54,697)
For nonbudgeted funds (entity differences)	--	3,185	130,118	--
For accruals and deferrals (basis differences)	2,671	52,434	(38,626)	3,261
For fund structure (perspective differences)	--	(3,930)	--	--
Fund balances, as reported on the Combined Statement of Revenues, Expenditures and Changes in Fund Balances (GAAP basis)	<u>\$ 208,370</u>	<u>\$ 436,642</u>	<u>\$ 339,740</u>	<u>\$ 251,472</u>

**COUNTY OF ORANGE**  
**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (Cont'd)**  
**FOR THE YEAR ENDED JUNE 30, 1999**  
**(Dollar Amounts in Thousands)**

**13. BUDGETARY BASIS OF ACCOUNTING (Cont'd)**

Excess of Expenditures Over Appropriations

Expenditures exceeded appropriations in the following areas for the year ended June 30, 1999:

<u>Fund</u>	<u>Account</u>	<u>Appropriations</u>	<u>Expenditures</u>
General Fund:			
	General Government	\$ 9,266	\$ 9,514
	Public Protection	6,175	6,295

In the general fund, general government expenditures in excess of appropriations occurred in the Auditor-Controller department because the department did not realize all of the intrafund billings that they had projected for the budget. Also in the general fund, public protection expenditures in excess of appropriations occurred in Sheriff-Coroner Communication because the Sheriff-Coroner department did not realize all of the intrafund billings that they had projected for the budget. In both instances, expenditures did not exceed budgeted appropriations at the legal level of budgetary control.

**14. RESTATEMENT OF FUND BALANCE**

The beginning fund balance of the Other Public Protection special revenue fund was restated in the amount of \$9,657. Previously, this fund was used to account for contributions from participating cities related to the 800 MHz Countywide Communications System (the Project). The restatement effectively reclassified these contributions to the Law Enforcement/Public Works Communication System agency fund. Amounts contributed are held by a trustee on behalf of the cities until the County directs the trustee to make payment on the Project. The County has determined that reporting these contributions in an agency fund more appropriately reflects its fiduciary responsibilities.

**15. RESERVED FUND BALANCES**

Fund balances which are not available for appropriation at June 30, 1999 are reserved for the following purposes:

	<u>General</u>	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Trust</u>
<b><u>Assets Not Available for</u></b>					
<b><u>Appropriations:</u></b>					
Encumbrances	\$ 67,455	\$ 67,019	\$ --	\$ 33,625	\$ 10
Long-Term Receivables	--	--	20,717	--	--
Imprest Cash Funds	1,404	119	--	--	--
Employees' Retirement	--	--	--	--	2,280
Inventory of Materials					
and Supplies	449	425	--	1	--
Prepaid Costs	17	31	--	--	--
Land and Improvements					
Held for Resale	--	--	--	2,402	--
Redevelopment Notes	--	3,303	--	1,221	--
Debt Service	--	--	319,023	--	--
External Investment Pools	--	--	--	--	1,100,865
Cash Flow Loans	--	2,500	--	--	--

**COUNTY OF ORANGE**  
**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (Cont'd)**  
**FOR THE YEAR ENDED JUNE 30, 1999**  
**(Dollar Amounts in Thousands)**

**15. RESERVED FUND BALANCES (Cont'd)**

	General	Special Revenue	Debt Service	Capital Projects	Trust
<b><u>Fund Balances Reserved by</u></b>					
<b><u>Board of Supervisors for a</u></b>					
<b><u>Future Purpose:</u></b>					
Debt Repayment	\$ 22,095	\$ --	\$ --	\$ --	\$ --
Equipment Replacement	--	3,811	--	--	--
Low and Moderate Income					
Housing	--	10,676	--	--	--
Land Purchase	--	70	--	27,453	--
OCHA Operations	--	4,600	--	--	--
Loan Program	--	11,289	--	--	--
Future Road Projects	--	12,713	--	--	--
Library Contingencies	--	1,700	--	--	--
Capital Projects	--	7,926	--	3,596	--
General Reserve	--	9,504	--	--	--
Other Reserves	109	6,639	--	300	--
Reserved Fund Balance	<u>\$ 91,529</u>	<u>\$ 142,325</u>	<u>\$ 339,740</u>	<u>\$ 68,598</u>	<u>\$ 1,103,155</u>

General reserves represent a segregation of a portion of fund balance that is restricted to provide for cash flow financing. General reserves, revenue anticipation notes, interfund loans, or a combination of the three are used by the County to ensure that sufficient cash is available to meet operating needs each fiscal year until property tax revenues are received in December and April. General reserves are increased or decreased by the County Board of Supervisors as part of the annual budget process.

**16. FUND TYPE RECLASSIFICATIONS**

Effective July 1, 1998, the County reclassified \$1,386 from the "Civic Center Authority" grouping in the expendable trust fund type to the "Parking Facilities & Civic Center Authority" grouping in the special revenue fund type. The County also reclassified \$446 from the "Investment Pool" grouping in the investment trust fund type to the "General Obligation, Other Revenue Bonds" grouping in the debt service fund type. Each of the funds belong to the Orange County Civic Center Authority, and the reclassification to governmental fund types more accurately defines the function and purpose of these funds.

**17. ENTERPRISE FUNDS**

**A. Airport**

The Airport enterprise fund was established to account for self-supporting services rendered at John Wayne Airport (JWA). The Airport's staff coordinates and administers the general business activities related to JWA, including concessions, fixed base operations, leased property, and aircraft tiedown facilities. Separate financial statements are also issued for the Airport enterprise fund. Copies of the financial statements may be obtained from Airport Accounting Services.

**B. Waste Management**

This fund was established to provide monies for the operation, expansion, and closing of existing landfills and the opening of new landfills. Monies are collected through gate fees, which users pay based primarily on tonnage. Separate financial statements are also issued for the Integrated Waste Management enterprise fund. Copies of the financial statements may be obtained from the Integrated Waste Management Department.

**COUNTY OF ORANGE**  
**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (Cont'd)**  
**FOR THE YEAR ENDED JUNE 30, 1999**  
**(Dollar Amounts in Thousands)**

**17. ENTERPRISE FUNDS (Cont'd)**

C. Segment Information for Enterprise Funds

	Airport	Waste Management	Total Enterprise Funds
Operating revenues	\$ 64,030	\$ 91,666	\$ 155,696
Depreciation	14,812	6,792	21,604
Operating income	20,757	35,369	56,126
Intergovernmental revenues	418	68	486
Operating transfers out	(5,100)	(12,056)	(17,156)
Net income	2,022	31,319	33,341
Current capital contributions	4,575	41	4,616
Plant, property and equipment:			
Additions	33,013	19,463	52,476
Deletions	(261)	(123)	(384)
Net working capital	36,595	226,942	263,537
Total assets	397,275	479,328	876,603
Bonds and other long-term liabilities	187,001	215,596	402,597
Total equity	169,524	181,765	351,289

**18. WASTE DISPOSAL SITE CLOSURE AND POSTCLOSURE COSTS**

State laws and regulations require the Integrated Waste Management Department (IWMD) to place final covers on its landfill sites when the landfills stop accepting waste and to perform certain maintenance and monitoring functions at the site for a minimum of 30 years after closure. Although closure and postclosure care costs will be paid only near or after the date each respective landfill stops accepting waste, IWMD is required by GASB Statement No. 18, *Accounting for Municipal Solid Waste Landfill Closure and Postclosure Care Costs*, to report a portion of these closure and postclosure care costs as an operating expense in each period based on the landfill capacity used as of each balance sheet date.

All active waste disposal sites are owned by IWMD, with the exception of the Santiago Canyon site, which is leased. In 1990, IWMD closed its Coyote Canyon landfill as this site had reached its maximum capacity.

The \$145,839 reported as the balance of the landfill closure and postclosure care liability at June 30, 1999 represents the cumulative amount accrued based on the percentage of the landfill capacity that has been used to date of 35% less actual costs disbursed related to the closure of the Coyote Landfill. IWMD will recognize the remaining estimated cost of closure and postclosure care of \$170,862 as the proposed capacity is filled. These amounts are based on what it would cost to perform all closure and postclosure care in fiscal 1999. Actual costs may be higher due to inflation, changes in technology, or changes in regulations. IWMD has landfill capacity permits to operate for 41 more years until the year 2040. With proposed expansion plans, however, IWMD intends to operate the landfills well beyond this date.

In compliance with the California Integrated Waste Management Board, IWMD has elected to make cash contributions to escrow funds to finance closure costs and has executed a pledge of future revenue agreement to assure that adequate funds are available to carry out postclosure care of all landfills. Accordingly, IWMD on an annual basis sets aside cash for the Frank R. Bowerman, Olinda Alpha, Prima Deshecha, and Santiago Canyon landfill sites into a restricted escrow fund, held by the County. As of June 30, 1999, \$34,038 has been set aside for these costs and is included as restricted assets in the accompanying balance sheet. The state mandated formula under which these contributions are computed will provide for the accumulation of sufficient cash to cover all estimated closure costs when each site reaches maximum capacity. IWMD expects that future inflation costs will be paid from interest earnings on these annual contributions. However, if interest earnings are inadequate or additional postclosure care requirements are determined (due to changes in technology or applicable laws or regulations, for example), these costs may need to be covered by charges to future landfill users.

**COUNTY OF ORANGE**  
**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (Cont'd)**  
**FOR THE YEAR ENDED JUNE 30, 1999**  
**(Dollar Amounts in Thousands)**

**19. CONSTRUCTION AND OTHER SIGNIFICANT COMMITMENTS**

At June 30, 1999, major contracts entered into for equipment, land, structures and improvements, and other commitments were as follows, listed by fund type:

<u>Special Revenue:</u>	<u>Project Title</u>	<u>Remaining Commitments</u>
	<u>Road Fund</u>	
	Various Roads Resurfacing and Slurry Seal	\$ 1,289
	<u>Foothill Circulation Phasing Plan</u>	
	Category 3/Backbone 2 Intersection Improvements	1,279
	Alton-Irvine Blvd. to Foothill Transportation Corridor Construction	1,632
	<u>Flood Fund</u>	
	Carbon Creek Channel/Coyote Creek Channel	3,063
	Galivan Retarding Basin L03B02	3,135
	Brea Creek Channel – Lambert to Central	6,445
	Fullerton Creek Channel – Knott to Beach	2,852
	<u>Harbors, Beaches &amp; Parks</u>	
	Newport Harbor Headquarters Building	1,085
	Upper Newport Bay Coastal Development Plan	2,096
	<u>800 MHz Countywide Coordinated Communications System</u>	
	Law Enforcement and Public Works communications system	33,790
	Subtotal	<u>56,666</u>
<u>Capital Projects:</u>		
	<u>Criminal Justice Facilities</u>	
	Theo Lacy Jail Expansion	1,879
	Theo Lacy Building A Phase 2	23,366
	<u>Irvine Coast Assessment District</u>	
	Upper Loop Road	1,377
	Subtotal	<u>26,622</u>
<u>Enterprise:</u>		
	<u>Airport</u>	
	County "T" Hangars	856
	Airport System Master Plan	1,136
	<u>Integrated Waste Management</u>	
	Olinda Permanent Drainage Phase 2	1,218
	Olinda Gas Collection & Control	1,941
	Prima Zone 1 Phase A Groundwater Protection	2,042
	Frank R. Bowerman – Groundwater Protection Phase V	1,820
	Subtotal	<u>9,013</u>
	Total	<u>\$ 92,301</u>

**COUNTY OF ORANGE**  
**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (Cont'd)**  
**FOR THE YEAR ENDED JUNE 30, 1999**  
**(Dollar Amounts in Thousands)**

**19. CONSTRUCTION AND OTHER SIGNIFICANT COMMITMENTS (Cont'd)**

In addition, the County is involved in the Santa Ana River Mainstem Project, a major flood control project designed to prevent the type of devastating damage caused by large-scale flooding which occurs on the average of every one hundred years in the Santa Ana River flood plain. The Federal Government, Orange County Flood Control District (OCFCD), San Bernardino County Department of Transportation/Flood Control District, and Riverside County Flood Control & Water Conservation District are cost sharing the U.S. Army Corp of Engineers' (COE) estimated total project cost of \$1,300,000. The OCFCD currently estimates its share to be \$413,000 for acquisition of real property rights for construction of the project, relocation of designated roads, bridges, trails, channels and utilities, and construction cost share contributions. This estimate is based on a recent indication of support by the COE for the Federal government to finance 50% of the total Prado Dam costs, subject to Federal appropriations to do so. The cost of the project exceeds OCFCD revenues available for facility improvements. The project has been authorized by the State Legislature, making it eligible for State Flood Control Subventions (reimbursement of 70% of OCFCD eligible expenditures). The State has \$21,000 budgeted in FY 1999-2000 for the OCFCD's Santa Ana River Mainstem Project. These funds can only be disbursed to the OCFCD after claims are reviewed and approved by the State Department of Water Resources (DWR). Once a claim is reviewed and approved by the DWR, only 90% of the eligible expenditures can be received if funds are available, and the remaining 10% can be received after an audit by the State Controller's Office. To date, the OCFCD has spent approximately \$193,000, submitted \$119,500 in claims for reimbursement, and has received \$70,900. The County does not accrue revenue due to the uncertainty of DWR eligibility approval of the reimbursement and due to the typical review completion time period of five to seven years after claims submission.

**20. SELF-INSURANCE**

The County is exposed to various risks of losses related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; natural disasters; unemployment; salary continuance; and providing health benefits to employees, retirees and their dependents. The County has chosen to establish internal service funds (ISFs) where assets are set aside for claim settlements and judgments associated with such losses.

The Workers' Compensation ISF addresses the risks related to employee injury through its Safety Program, which is responsible for injury and illness prevention, and the Workers' Compensation Program, which ensures that all benefits are properly provided and administers the contract for the third party workers' compensation claims administration. Workers' compensation claims are self-funded up to \$5 million. A commercial insurance policy also provides an additional \$5 million in coverage.

The Property and Casualty Risk ISF is responsible for managing losses related to torts; theft of, damage to and destruction of assets, errors and omissions, civil rights claims, and natural disasters. Tort liability is also self-insured up to \$5 million. Commercial insurance is purchased for property and other risk exposures. Additional excess liability insurance provides up to an additional \$25 million in liability coverage.

The County first began purchasing commercial insurance for the Workers' Compensation and the Property and Casualty Risk Programs in fiscal year 1997-98 to provide excess coverage. For fiscal years 1997-98 and 1998-99, there were no claims or settlements that exceeded the self-insurance threshold and accordingly, no claims or settlements have been paid by the excess insurance.

Independent actuarial studies are secured annually for these ISFs. The unpaid claims liabilities included are based on the results of those annual actuarial studies and include amounts for loss adjustment expenses and claims incurred but not reported. Claim liabilities are calculated considering inflation, claims cost trends including frequency and payout of settlements and judgments, interest earnings, and changes in legal and economic factors. Claims liabilities have been discounted at a rate of 5% to reflect anticipated future investment earnings.

All County departments that have employees contribute to the Workers' Compensation Fund according to the State Controller's method of cost allocation based on employee classifications and claims experience. All departments that have any loss experience in property or casualty are similarly charged for their pro rata share of the ISF costs.

**COUNTY OF ORANGE**  
**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (Cont'd)**  
**FOR THE YEAR ENDED JUNE 30, 1999**  
**(Dollar Amounts in Thousands)**

**20. SELF-INSURANCE (Cont'd)**

The County has also established the Unemployment Insurance ISF, which covers all employees, and the County Indemnity Health Plans and Self-Insured Benefits ISFs, which provide health, dental and salary continuance for a portion of its employees. The County pays through the State of California the standard unemployment benefits. The health insurance coverage is up to \$2 million for each covered employee or dependent.

Revenues of the ISFs, when combined with current reserves and future contributions, are expected to provide adequate resources to meet liabilities as they come due.

Changes in the balances of claims liabilities during the past two fiscal years for these self-insurance funds are as follows:

	Workers' Compensation	Property & Casualty Risk	Health & Other Insurance Benefits	Total
Unpaid Claims, Beginning of FY 1997-98	\$ 31,000	\$ 45,000	\$ 7,645	\$ 83,645
Claims and Changes in Estimates	14,235	6,139	28,971	49,345
Claim Payments	(12,801)	(6,924)	(28,250)	(47,975)
Unpaid Claims, End of FY 1997-98	32,434	44,215	8,366	85,015
Claims and Changes in Estimates	18,060	4,486	34,169	56,715
Claim Payments	(15,029)	(7,393)	(31,840)	(54,262)
Unpaid Claims End of FY 1998-99	\$ 35,465	\$ 41,308	\$ 10,695	\$ 87,468

There is an additional \$1,662 in the general fund for claims payable to management employees for unreimbursed medical expenses, accidental death and dismemberment insurance, health insurance, professional organization fees and, in lieu of the aforementioned, actual cash disbursements.

The increase in the overall cost of workers' compensation claims this period reflects several costly, atypical settlements, an increasing number of workers' compensation claims filed, and a trend in rising medical costs.

The County's loss frequency continues to decrease due to the ongoing impacts of the Fire Department leaving the risk retention program as well as city incorporations, which continue to reduce risk exposure. A change in procedure in all Orange County courts continues to reduce the number of lawsuits filed against the County. Cases are resolved promptly which usually results in a lower cost or settlement.

**21. ESTIMATED LIABILITY FOR OTHER LITIGATION AND CLAIMS**

The County records estimates of liabilities for litigation and claims expected to be paid primarily from the general fund. Estimated liabilities for litigation and claims totaling \$184 have been recorded in the general long-term debt account group at June 30, 1999, as none of these liabilities are expected to be liquidated with expendable available financial resources.

**COUNTY OF ORANGE**  
**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (Cont'd)**  
**FOR THE YEAR ENDED JUNE 30, 1999**  
**(Dollar Amounts in Thousands)**

**21. ESTIMATED LIABILITY FOR OTHER LITIGATION AND CLAIMS (Cont'd)**

Sparks Pit Landfill Regulatory Action. Located in the City of Anaheim, Sparks Pit is a landfill formerly leased to and operated by the County. The State Water Board and other regulatory agencies are seeking certain improvements to the site to mitigate possible groundwater contamination. In addition, the regulators may require the installation of a landfill gas system. It is likely that the County will incur costs as a result of these regulatory actions. Although the ultimate costs, if any, are unknown, they may be significant. However, the County's Chapter 9 discharge may prove to be an absolute defense to this matter. The County is aggressively seeking to join other parties who participated in past operations of the site to share in the costs of mitigation. At this early stage of the regulatory actions, it is not possible to predict the outcome of these actions or the success of the County's attempt to join other responsible parties.

Claims Asserted Against Former and Current Employees. In an action arising out of the Orange County bankruptcy, BA Securities, Inc., filed a third party complaint for indemnification against two former County employees, and one current employee. The third party complaint has not been served insofar as the County is aware. The County believes that the filing of the third party complaint violates the discharge and injunction orders of the Bankruptcy Court and of the Plan and will file a complaint seeking damages and seeking to enjoin prosecution of the matter. On May 11, 1999, a "Settlement Agreement and Release" was entered into by the County, BA Securities and the former and current employees. This settlement was conditioned upon, among other things, the obtaining of a Good Faith Finding and Bar Order from the United States District Court. A mutual release was executed on August 25, 1999 which completely resolved the matter.

Hughes Aircraft Co. v. County of Orange. Hughes Aircraft Co. is seeking a refund of property taxes for the tax years 1989 to 1994 for personal property that it contends were owned by the U.S. Government under the terms of its government contracts. Hughes estimates that the total amount to be refunded is \$1,153, plus interest of which the County's share would be approximately 12% of the estimated total to be refunded. This case went to trial and resulted in a Superior Court ruling in favor of Hughes. The County appealed the decision and all briefs required by the Court of Appeal have been completed. It is likely that oral argument in this case will not be scheduled until sometime in the year 2001.

William B. Bunker, etc., et al. v. County of Orange. In this action, Mr. Bunker is seeking damages in the form of property tax refunds for himself and all other similar taxpayers. He contends that the County has consistently violated the statute that requires assessment appeals board hearings to be held within two years. A demurrer filed by the County was overruled requiring the County to answer the complaint. The County denies liability in this case. Both parties are currently in the discovery stage; no trial date has been set. The amount of the loss cannot be estimated at this time, but could be significant.

McCarthy Brothers Companies, Inc. v. County of Orange. On September 30, 1999 the contractor filed action against the County and the Airport seeking approximately \$11,000 in damages. The County has set aside approximately \$3,800 in the form of liquidated damages and the County has cross-complained against other parties seeking indemnification and contribution. At this time, the ultimate outcome of this matter cannot be determined.

**22. OTHER CONTINGENCIES**

In addition to the accrued liabilities for self-insurance claims incurred but not reported and other litigation and claims described previously, the County is also a defendant in numerous other lawsuits and claims arising from, among other things, breach of contract and tax disputes. Although the aggregate amount asserted in such lawsuits and claims is significant, County management believes that the ultimate outcome of these matters will not have a significant effect on the financial position or results of operations of the funds of the County.

Grant monies received from federal and state sources are subject to audit by these agencies to determine whether expenditures are in compliance with the respective grant provisions. County management does not believe that a material liability will result from these audits.

**COUNTY OF ORANGE**  
**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (Cont'd)**  
**FOR THE YEAR ENDED JUNE 30, 1999**  
**(Dollar Amounts in Thousands)**

**22. OTHER CONTINGENCIES (Cont'd)**

As the owner and operator of a number of landfill sites, IWMD has potential exposure to environmental liability. IWMD may be required to perform corrective action for contaminate releases at any of its inactive landfills, even if the County no longer owns the site. IWMD is in the process of evaluating its potential exposure to remediation liabilities on closed landfill sites. On the basis of information currently available to management, IWMD management believes it has sufficient reserves for known and anticipated remediation costs.

On August 14, 1997, the Supreme Court of the State of California issued a decision in a case entitled *Ventura County Deputy Sheriffs Association vs. Board of Retirement of Ventura County Employees' Retirement Association*. On October 1, 1997, the decision of the California Supreme Court became final. The Supreme Court held that a county retirement system operating under the provisions of the County Employees Retirement Law of 1937 must include certain types of cash incentive payments and additional pay elements, received by an employee, within the employee's "compensation earnable" and "final compensation" when calculating the employee's retirement benefit.

The County is currently in litigation with OCERS. The County maintains that OCERS improperly applied a new definition of compensation to existing retirees. The County also maintains that OCERS improperly allocated excess earnings of the retirement system. The County has coordinated the matter with other similar actions and is being heard in San Francisco Superior Court. The action has been certified as a class action lawsuit relative to active, retired, and future members of the system and their beneficiaries. Should the County be successful in its litigation, it could realize reductions in retirement obligations of approximately \$175,000 or in excess of \$15,000 per year for 30 years. Employee organizations have brought legal action to expand on the definition of "compensation earnable" adopted by OCERS. Should employee organizations be successful in litigation, County costs could increase by an undetermined significant amount.

**23. DEFINED BENEFIT PENSION PLANS**

Orange County Employees Retirement System

Plan Description. Substantially all County employees participate in OCERS, a cost-sharing multiple-employer public employee retirement system established in 1945 under the County Employees' Retirement Law of 1937. The employees of several other smaller units of local government also participate in the system and account for approximately 17% of the system membership.

OCERS provides for retirement, death, disability, and cost-of-living benefits, and is subject to provisions of the County Employees' Retirement Law of 1937 and other applicable statutes. Members employed after September 20, 1979, are designated as Tier II members. Members employed prior to September 21, 1979, are designated as Tier I members; the establishment of Tier II resulted in a reduced allowance beginning at age 50. The retirement allowance is based upon the member's age at retirement, final compensation, and the total years of service under the System. If an employee terminates before rendering five years of service, the employee forfeits the right to receive benefits and is entitled to withdraw employee contributions made together with accumulated interest. If an employee terminates after five years of service, the employee may elect to leave the accumulated deposits in the retirement fund and be granted a deferred retirement allowance at the time the member would have been entitled to the allowance if service had been continued.

OCERS issues a stand alone annual financial report, which can be obtained by writing to the Orange County Employees Retirement System, 2223 Wellington Avenue, Santa Ana, CA 92701 or by calling (714) 558-6200.

Funding Policy. In accordance with various Board of Supervisors' resolutions, the County's funding policy is to make periodic contributions to OCERS in amounts such that, when combined with employees' contributions and with investment income, will fully provide for all employees' benefits by the time they retire. From January through August 1998, employer's contributions as a percentage of covered payroll were 2.32% for General members and 23.54% for Safety members. From September 1998 through June 1999, employer's contributions were 1.86% for General members and 26.44% for Safety members.

**COUNTY OF ORANGE**  
**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (Cont'd)**  
**FOR THE YEAR ENDED JUNE 30, 1999**  
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**23. DEFINED BENEFIT PENSION PLANS (Cont'd)**

Covered employees are required to contribute a percentage of their annual compensation to OCERS as a condition of employment. For Tier I members, the normal rate of contribution is based on the member's age at entry in OCERS, and is calculated to provide an annual annuity equal to 1/200 of the member's "final compensation" for each year of service rendered at age 60 for General members, and at the age of 50 for Safety members. For Tier II General members, the rate of contribution is calculated to provide an annual annuity equal to 1/120 of the member's "final compensation" for each year of service rendered at age 60. For Tier II Safety members, the rate of contribution is calculated to provide an annuity equal to 1/100 of the member's "final compensation" for each year of service rendered at age 50.

The Pension Liability or Asset at transition was calculated in accordance with the provisions of GASB Statement No. 27 and was zero at transition and the effective date.

The County's 1998 contribution represented 74% of total contributions required of all participating entities.

In September 1994, pursuant to an agreement with OCERS, the County issued \$320,040 in taxable Pension Obligation Bonds (POB). The Bonds were issued to refund the prior service portion of the County's retirement obligations. OCERS established a County Investment Account (Investment Account) with the POB proceeds in the amount of \$318,300. For FY 1995-96, the County reached an agreement with OCERS to use the Investment Account to fund both the normal cost and UAAL portions of the County's required employer retirement contributions. In 1996, the County and the Retirement Board entered into an agreement for the use of the Investment Account over a new funding period of 20 years. The agreement provides for the Investment Account to be used to fund the County's employer contribution in a decreasing percentage each year. In 1998, the Investment Account funded approximately 85% of the County's employer contribution and the County made cash contributions for the remaining 15%. In subsequent years the portion of normal costs paid from bond proceeds would be adjusted by a reduction of 5% of normal costs each year for 20 years, increases or decreases in relation to changes in the UAAL, and returns on investments which varied from anticipated.

Because the returns in the Investment Account have been higher than anticipated, the required annual percentage of employer contributions has remained low. The following table shows the County's required contributions and the percentage contributed, for the current year and each of the two preceding years:

<u>Year Ended</u>	<u>County Cash Contribution</u>	<u>OCERS Investment Account Contribution</u>	<u>Total Annual Required Contribution</u>	<u>Percentage Contributed</u>
06/30/97	\$ 1,879	\$ 44,974	\$ 46,853	100%
06/30/98	2,797	41,259	44,056	100%
06/30/99	1,284	44,004	45,288	100%

**Defined Benefit Retirement Plan**

In January 1992, the County adopted the 1992 Defined Benefit Retirement Plan. The plan is a single-employer defined benefit retirement plan for employees performing services on the basis of less than half-time or as extra help. The plan was adopted to comply with the Omnibus Budget Reconciliation Act of 1990. Eligible employees of this plan are not covered by OCERS.

The plan's financial statements are prepared using the accrual basis of accounting. Plan participant and County contributions are recognized in the period in which contributions are due. Investments are reported at fair value as further described in Note 2.F and are fully invested in the County Pool as described in Note 3. Financial information related to the plan can be obtained from the Treasurer-Tax Collector.

**COUNTY OF ORANGE**  
**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (Cont'd)**  
**FOR THE YEAR ENDED JUNE 30, 1999**  
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**23. DEFINED BENEFIT PENSION PLANS (Cont'd)**

The normal retirement benefits for a participant who retires on or after the normal retirement date is a monthly amount equal to one-twelfth of two percent of the participant's career earnings during the first 30 years of credited service. The normal retirement date is the first day of the month coinciding with or immediately preceding a participant's 65th birthday. The County Board of Supervisors has full authority to amend or establish plan or benefit provisions at any time in accordance with the plan.

As of June 30, 1999, the plan consists of 1,277 active plan participants, ten terminated plan participants entitled to but not yet receiving benefits, and four retirees receiving benefits.

Plan participants are required to contribute between 2.5 and 7.5 percent of their annual covered compensation based upon the participant's attained age as of January 1 of each calendar year. The County may prospectively increase or decrease participant contribution rates by plan amendment effective on the first day of the plan year. The plan actuary advises the County concerning contributions necessary to maintain the plan in sound actuarial and financial condition. Based on the plan actuary's advice, the County determines the amount necessary for contribution to the plan. Since the plan's inception, there have been no County contributions. Plan investment and administrative expenses are charged to the participants and deducted from investment earnings prior to crediting to their account.

Orange County Defined Benefit Retirement Plan  
Schedule of Funding Progress  
(Amounts in Thousands)

Actuarial Valuation Date	Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (AAL) - Unit Credit (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Annual Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
1/01/94	\$ 957	\$ 1,023	\$ 66	93.5%	\$ 10,903	0.6%
1/01/98	\$ 2,058	\$ 2,178	\$ 120	94.5%	\$ 10,862	1.1%

Schedule of Employer Contributions  
(Amounts in Thousands)

Year Ended June 30	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
1998	\$ 3	0%	\$ 3
1999	\$ 3	0%	\$ 6

There were no annual required contributions for the previous fiscal years ended June 30, 1996 and 1997.

The above schedules include information determined as part of the actuarial valuations at the dates indicated.

**COUNTY OF ORANGE**  
**NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS (Cont'd)**  
**FOR THE YEAR ENDED JUNE 30, 1999**  
**(Dollar Amounts in Thousands)**

**23. DEFINED BENEFIT PENSIONS PLANS (Cont'd)**

Additional information as of the latest actuarial valuation follows.

Valuation date	1/01/1998
Actuarial cost method	Unit Credit
Amortization method	Level dollar open
Remaining amortization period	30 years
Asset valuation method	Fair Value
Actuarial assumptions:	
Investment rate of return	8.0% per annum, net of expenses
Projected salary increases	5.5% per annum
Includes inflation at	4.5% per annum
Cost-of-living-adjustments	None

**24. POSTRETIREMENT HEALTH CARE BENEFITS**

In addition to providing pension benefits, the County makes health care benefits available for 4,313 retired employees. These health care benefits are funded by a .5% salary contribution from current employees, contributions from the OCERS' Additional Retirement Benefit Account, and contributions from the retirees themselves. The County recognizes the cost of these benefits by reporting as expenditures in various funds periodic insurance premiums and claims, which were \$9,396 in FY 1998-99.

**25. DEFERRED COMPENSATION PLAN**

The County offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457 (Deferred Compensation Plan), which permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or certain other cases. In addition, the County provides an employer paid deferred compensation plan for its executives and elected officials.

On January 1, 1998, the County placed all Plan assets in trust accounts for the exclusive benefit of the participants and their beneficiaries, in order to comply with the Small Business Job Protection Act of 1996. Consequently, the County's financial statements do not include Plan assets.

At June 30, 1999, assets with a current market value of \$334,946 were in the Plan's trust accounts.

**26. SUBSEQUENT EVENTS**

The following events occurred subsequent to June 30, 1999:

**A. Teeter Plan Revenue Bonds Remarketing**

On November 1, 1999, the mandatory tender of the Teeter Plan Revenue Bonds 1995 Series C occurred. Of the original \$34,000 Series C bonds, \$34,000 were remarketed and have a variable interest rate that will be determined on a weekly basis. In addition, \$2,700 of the 1995 Series A (Taxable) Bonds were retired.

**B. Orange County Financing Authority Bonds Refunding**

On August 24, 1999, the Board of Supervisors approved in concept, the partial advance refunding of the Orange County Financing Authority 1992 Tax Allocation Revenue Bonds, Series A. Of the \$28,082 Revenue Bonds issued on June 1, 1992, \$13,210 will be subject to the advance refunding.